MINNESOTA DEPARTMENT OF FINANCE

Office Memorandum

Date: February 28, 2008

To: Legislative Reference Library
Chief Clerk of the House of Representatives
Secretary of the Senate

From: Tom J. Hanson TJH
Commissioner

Phone: 651-201-8010

Subject: Report to Legislature - Debt Capacity Report

Minnesota Statute 16A.105 requires the Commissioner of Finance in February and November of each year to prepare a debt capacity report to be delivered to the governor and legislature.

Attached is the February 2008 debt capacity report.

Attachment

cc:	Senator Pogemiller	Representative Anderson Kelliher
	Senator Senjem	Representative Seifert
	Senator Cohen	Representative Solberg
	Senator Langseth	Representative Carlson
		Representative Hausman

Debt Capacity Forecast

February 2008

Minnesota Statute 16A.105 requires the Commissioner of Finance in February and November of each year to prepare a debt capacity forecast to be delivered to the governor and the legislature.

Statement of Indebtedness

The state of Minnesota on February 1, 2008 had $4,338,685,000 of general obligation bonds outstanding.

The state has no general obligation notes outstanding.

The Laws of Minnesota 1991, Chapter 350, authorized the state to issue revenue bonds secured by the state's full faith and credit to finance the construction and equipping of an engine repair facility in Hibbing and an aircraft maintenance facility in Duluth. The state issued $47,670,000 of these revenue bonds in May 1995. All the outstanding bonds were redeemed on July 16, 2007, leaving a zero balance of bonds outstanding.

Debt Service Costs

The debt service costs for the state's general obligation bonds are shown below. The amounts shown are the general fund costs by fiscal year and include the amount of debt service paid from the sports and health club tax. In this forecast, the assumption for future capital budgets is $645 million in even numbered legislative sessions and $120 million in odd numbered years.

Year	Actual	Year	Forecast
2006	353,728,000	2008	409,426,000
2007	400,146,000	2009	459,645,000
		2010	471,707,000
		2011	519,441,000
		2012	525,371,000
		2013	533,535,000
		2014	516,960,000
		2015	566,275,000
		2016	559,344,000
		2017	629,324,000

Debt Authorized and Unissued

The state has authorized and unissued general obligation bonds totaling $709,838,400.

Future Debt Capacity

Future general obligation debt capacity is forecast through the 2016-17 biennium. To make this forecast, many variables must be forecasted. Following are some of the numerous variables that are part of making this forecast.

The state's debt management policy has a guideline that limits the appropriation for debt service from the general fund to 3% of non-dedicated general fund revenues. The Department of Finance revenue forecast is used for revenues in the next two biennia and is increased in future years based upon projected economic growth factors. The 3% limit under the guideline is then used to estimate the maximum amount of general fund revenues available for debt service.

Other variables that are considered as part of the forecast are interest rates on bonds sold, premiums paid on bond sold, interest rates for investment earnings on balances in the debt service fund and the bond proceeds fund, various receipts coming into the debt service fund, cash flow on future capital projects, the dollar amount of bonds to be sold, and the timing of the sale of bonds.

The forecast of future debt capacity also assumes that major capital budgets will be approved in the even numbered legislative sessions and small emergency capital budgets will be approved in the odd numbered years. The assumption is that the large capital budgets are passed by the legislature in level amounts.

Based upon all these assumptions, the maximum debt capacity for capital budgets in even numbered years is $885,000,000 each even numbered year through 2016 and is $120,000,000 in each odd numbered year through 2017.

After the forecast was completed, the Legislature overrode the Governor's veto of the omnibus transportation finance bill. Due to timing issues, the general fund impacts of this law change are *not* included in this forecast. This legislation contains $2.8 million of additional spending in FY 2008-09, and reduces general fund revenues by an estimated $77 million in FY 2010-11. The revenue reduction from the veto override will affect the maximum debt capacity.

The omnibus transportation finance bill also included $60,060,000 in state transportation fund bonds. The payment of these bonds is to be financed from the general fund. The current maximum debt capacity of $885 million must include the $60 million of transportation bonds from the omnibus transportation bill. The remaining debt capacity available within the 2008 capital budget is therefore $824,940,000.

Including the omnibus transportation finance bill, the state general obligation bonds authorized and unissued would increase to $2,571,698,400.