

State of Minnesota Bond Fact Sheet

General Obligation Bonds

- A security backed by the full faith and credit of the state; the state will levy a tax if necessary to meet its debt service obligations
- Each bond issue must distinctly specify the purposes and maximum amount of proceeds authorized to be expended for such purposes
- Requires 60 percent of the vote of each legislative body
- Bond financed property must be
 - Publicly owned
 - Constitute a capital expenditure
 - For a public purpose
- The legislative bodies and the Governor are bound by the obligations
- Maximum maturity of 20 years
- The state structures the debt to accelerate the bond repayment

Revenue Bonds

- Bonds whose principal and interest are payable exclusively by a pledged revenue stream, not the full faith and credit of the state
- May be enacted with only 50 percent of the vote of each legislative body
- State cannot issue revenue bonds supported by a tax of statewide application – these securities become general obligation bonds
- Pledged revenue stream must have collections in excess of 100% of debt service costs (coverage)
- Coverage requirements differ by the types of revenue streams pledged
- Debt service costs are higher than general obligation bonds and are based on the type of pledged revenue stream, historical/projected coverage, revenue volatility, etc.; furthermore, investors may be unwilling to purchase bonds secured by certain revenue streams
- Most revenue bonds are structured to achieve overall level debt service or to match the revenue stream

Appropriation Bonds

- The obligation to pay debt service is contingent upon inclusion of the debt service payment in the issuer's adopted budget (the appropriation) – the State has no legal obligation to continue appropriating funds to make debt service payments
- Each future legislature (subject to the Governor's veto authority) may rescind the commitment to make the payment on the appropriation bond
- Rating agencies and investors consider appropriation bonds obligations of the State; as a result, the State's failure to make an appropriation would be a reflection on the State's willingness to make good on its commitments and would have negative consequences for future bond issuance (including GO bonds).
- The State may identify a revenue stream to pay the bonds, but such revenue stream is not pledged
- A validation proceeding has been required for the state to issue certain appropriation bonds and may also be required for other appropriation bonds – the State has not undertaken such a validation process at this time