MINNESOTA Management & Budget

Office Memorandum

Date: February 28, 2013

To: Legislative Reference Library

From: Jim Schowalter
Commissioner

Subject: Report to the Legislature - Debt Capacity Report

Minnesota Statute 16A.105 requires the commissioner of Minnesota Management & Budget 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 2013 debt capacity report.

Attachment

cc: Senator Thomas M. Bakk
Senator David W. Hann
Senator Richard Cohen
Senator LeRoy A. Stumpf
Representative Paul Thissen
Representative Erin Murphy
Representative Kurt Daudt
Representative Lyndon Carlson, Sr.
Representative Alice Hausman

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Minnesota Management and Budget
Debt Capacity Forecast
February 2013

Introduction

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

On December 22, 2009, Minnesota Management and Budget adopted new Capital Investment Guidelines. These guidelines are intended to:

- Be consistent with measures used by the credit rating agencies and foster direct comparisons with the debt burdens of other states;
- Be comprehensive to ensure all kinds of tax-supported debt obligations are recognized; and
- Continue Minnesota's conservative financial management practices.

The capital investment guidelines are:

1. Total tax-supported principal outstanding shall be 3.25% or less of total state personal income.
2. Total amount of principal (both issued, and authorized but unissued) for state general obligations, state moral obligations, equipment capital leases, and real estate capital leases are not to exceed 6% of state personal income.
3. 40% of general obligation debt shall be due within five years and 70% within ten years, if consistent with the useful life of the financed assets and/or market conditions.

Statement of Indebtedness

As of February 28, 2013, the state of Minnesota had $5,748,170,000 principal amount of general obligation bonds outstanding (consisting of both various purpose and trunk highway bonds), as well as $1,149,120,000 principal amount of other tax-supported obligations outstanding, for a total of $6,897,290,000 outstanding as of the date of the forecast. Please see the attached exhibit for more detail about these obligations.

The state has no general obligation short-term notes outstanding.

Debt Service Costs

The table below presents the details of the actual and forecasted debt service costs for all of the state's tax-supported debt. For the forecast, the assumption for future capital budgets is $775 million in the even numbered legislative sessions and $225 million in the odd numbered years with respect to various purpose general obligation bonds. For trunk highway bonds, the forecast amounts have been prepared based upon information provided by the Department of Transportation. The column entitled "Other Tax-Supported Bonds" reflects the actual debt service obligations in each fiscal year for the debt identified in the exhibit; it does not reflect the total amount appropriated in each fiscal year for such obligations. The estimate for interest rates used for future bond issues is derived from the Global Insight Inc. ("GII") data used to develop the February 2013 revenue forecast.

Actual Annual Debt Service Costs

($ in Thousands)

		General Obligation Bonds				
Fiscal Year		Various Purpose	Trunk Highway Fund	Subtotal	Other Tax Supported Bonds	Total
2010	actual	$429,123	$70,542	$499,665	$27,640	$527,305
2011	actual	$398,799	$45,225	$444,024	$30,393	$474,417
2012	actual	$190,799	$72,601	$263,400	$38,194	$301,594
2013	forecast	$222,584	$120,305	$342,890	$49,236	$392,126
2014	forecast	$634,426	$148,917	$783,343	$46,992	$830,335
2015	forecast	$653,091	$180,321	$833,412	$46,951	$880,363
2016	forecast	$683,658	$191,952	$875,610	$46,930	$922,540
2017	forecast	$741,784	$200,535	$942,319	$46,916	$989,235
2018	forecast	$714,604	$203,010	$917,614	$46,886	$964,500
2019	forecast	$746,986	$201,167	$948,153	$46,860	$995,013

**Totals may not add due to rounding.*

Debt Authorized and Unissued

The state has authorized and unissued general obligation bonds for various purposes and trunk highway purposes totaling $2,030,517,700 as of February 28, 2013. In addition, the legislature has authorized an additional $55,115,000 of debt to be issued for biosciences facilities by the University of Minnesota. The legislature has also authorized the sale of state appropriation bonds with an assumed project size of $498 million to finance the Professional Football Stadium Bonds. The size of the bond issues will be slightly higher to include estimated financing costs such as the Cost of Issuance, Capitalized Interest, Underwriter's Discount and/or Debt Service Reserve. Of the assumed project size of $498 million, $348 million is the state's share and $150 million is for the city of Minneapolis' share. The assumed future bond sales have been prorated at the same levels. Additional recent bond authorizations of state appropriation bonds include $10 million to finance the pay for performance bond program and $30 million to finance the MHFA Housing Infrastructure Bonding program. None of the bonds for these programs have been issued. The total amount of authorized and unissued tax-supported obligations is $2,662,512,700.

Debt Capacity

The capital investment guidelines are intended to be a current fiscal year "point in time" calculation that minimizes the number of variables that needed to be addressed in the prior debt capacity calculations. Total state personal income is derived from the GII data used to develop the February 2013 revenue forecast and reflects the state 2013 fiscal year (not the 2012 calendar year).

Capacity Calculations as of February 2013 Forecast:

Guideline #1- Goal 3.25% or less:

Tax-supported principal outstanding	$6.897 billion
FY 2013 state personal income estimate – GII forecast	$252.230 billion
As a percent of state personal income, not to exceed 3.25%	2.73%
Estimated maximum additional principal capacity for all tax-supported debt	$1.300 billion

Guideline #2 - Goal 6.00% or less:

Total principal outstanding (issued, and authorized but unissued)	$11.561 billion
FY 2013 state personal income estimate – GII forecast	$252.230 billion
As a percent of state personal income, not to exceed 6.0%	4.58%
Estimated maximum additional principal capacity for all obligations	$3.573 billion

Guideline #3 - Goal no less than 40% of general obligation debt to mature within five years and 70% within ten years:

Of the State's general obligation bonds outstanding on June 30, 2012, 35.6 percent were scheduled to mature within five years and 67.9 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds expected to be outstanding on June 30, 2013, 39.4 percent are scheduled to mature within five years and 70.6 percent are scheduled to mature with ten years.

Impact of Tobacco Settlement Revenue Bonds on Debt Service/Debt Management Guidelines

The Tobacco Settlement Revenue Bonds did not count toward any of the state's Debt Management Guidelines as the bonds were issued by the Tobacco Securitization Authority ("TSA"), a body corporate and politic and public instrumentality which has a legal existence independent and separate from the state. The bond proceeds from the Tobacco Settlement Revenue Bonds were used to pay off current biennial payments for principal and interest on the state's general obligation bonds. This transaction resulted in a reduction of principal payments made by the state and thereby reducing the amount applicable to the calculation of Capital Investment Guideline No. 3 which states that 40% of general obligation debt shall be due within five years and 70% within ten years. Prior to the issuance of the Tobacco Settlement Revenue Bonds, the State expected that of the bonds to be outstanding on June 30, 2012, 40.0 percent were scheduled to mature within five years and 70.1 percent were scheduled to mature with ten years. However, as stated above, with the issuance of the Tobacco Settlement Revenue Bonds, the percentages were 35.6 percent and 67.9 percent, respectively.

Refunding of Certificates of Participation

MMB sold Certificates of Participation in 2009 and in December 2012 defeased a portion of Certificates of Participation ("COP") used to finance the Department of Revenue ("DOR") Integrated Tax System. The defeasance used unexpended COP proceeds to pay off the remaining DOR portion of the COP debt. The defeasance will eliminate future debt service payment requirements by the DOR by approximately $2 million per year.

Capital Investment Guidelines
Summary of Outstanding Principal as of 2/28/2013
As of February, 2013 Economic Forecast

Tax-Supported Debt (Guideline #1)	**Principal Outstanding**	**Authorized, Unissued**	**Total**
All State General Obligation Debt	5,748,170,000	2,030,517,700	7,778,687,700
Certificates of Participation (SWIFT/Integrated Tax)	45,815,000	0	45,815,000
BCA Bemidji Lease Revenue Bonds	4,795,000	0	4,795,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	62,140,000	0	62,140,000
DHS Building	75,040,000	0	75,040,000
MHFA Supportive Housing	30,840,000	0	30,840,000
MHFA Housing Infrastructure	0	30,000,000	30,000,000
U of M:			
TCF Bank Stadium	113,995,000	0	113,995,000
Biosciences Facilities	160,275,000	55,115,000	215,390,000
State General Fund Appropriation Refunding Bonds	656,220,000	0	656,220,000
Professional Football Stadium Appropriation Bonds (1) - State Share	0	375,169,157	375,169,157
Professional Football Stadium Appropriation Bonds (1) - Minneapolis Share	0	161,710,843	161,710,843
Pay for Performance Appropriation Bonds	0	10,000,000	10,000,000
TOTAL - Tax-Supported Debt	6,897,290,000	2,662,512,700	9,559,802,700

Other Obligations (Guideline #2)		
Tax-Supported Debt (issued and authorized but unissued)		9,559,802,700
MHFA Moral Obligation Debt (2)		1,368,875,000
MOHE Moral Obligation Debt		612,248,000
Equipment Leases		20,093,876
TOTAL - All Obligations		11,561,019,576
FY 2013 State Personal Income Estimate - GII Forecast:	252,230,000,000	
State Tax-Supported Debt as a Percent of Personal Income:	2.73%	
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	1,300,185,000	
All Obligations as a Percent of Personal Income:	4.58%	
Estimated maximum additional principal capacity for all obligations @ 6.0%	3,572,780,424	

(1) The assumed project size is $498 million but the size of the bond issues will include estimated financing costs such as the Cost of Issuance, Capitalized Interest, Underwriter's Discount and/or Debt Service Reserve.

(2) MHFA has a total of $5 billion of debt authorized; however, they have gone to a new indenture structure which will not use the moral obligation pledge. Consequently, this authorized but unissued amount is not included here.