MINNESOTA Management & Budget

Office Memorandum

Date: December 3, 2015

To: Legislative Reference Library

From: Myron Frans, Commissioner

Subject: Report to the Legislature - Debt Capacity Forecast

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

Attached is the November 2015 debt capacity forecast.

Attachment

cc:
Senator Thomas M. Bakk
Senator David W. Hann
Senator Richard Cohen
Senator LeRoy A. Stumpf
Representative Kurt Daudt
Representative Paul Thissen
Representative Jim Knoblach
Representative Paul Torkelson

Minnesota Management and Budget
Debt Capacity Forecast
November 2015

Introduction

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

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.

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.

Statement of Indebtedness

The statement of indebtedness describes the amount of debt we are currently obligated to repay. As of November 30, 2015, the state of Minnesota owed $6,565,805,000 in principal for general obligation bonds (this includes both various purpose and trunk highway bonds), as well as $1,657,670,000 in principal for other tax-supported obligations, for a total of $8,223,475,000 owed 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 provides the details of the actual and forecasted debt service costs for all of the state's tax-supported debt. For the Budget and Economic Forecast, the assumption for future capital budgets for various purpose general obligation bonds is $800 million in the even numbered legislative sessions and $230 million in the odd numbered years. For trunk highway bonds, the forecast amounts for existing bond authorizations 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 <u>not</u> 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 IHS Economics ("IHS") data used to develop the November 2015 Budget and Economic Forecast.

Actual Annual Debt Service Costs
($ in Thousands)

	General Obligation Bonds				
Fiscal Year	Various Purpose	Trunk Highway Fund	Subtotal	Other Tax Supported Bonds	Total
2006 actual	$353,728	$36,347	$390,075	$10,629	$400,705
2007 actual	$400,146	$53,752	$453,898	$14,695	$468,593
2008 actual	$409,426	$52,170	$461,596	$17,999	$479,595
2009 actual	$452,978	$59,542	$512,520	$24,259	$536,779
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 actual	$222,584	$120,305	$342,889	$49,236	$392,125
2014 actual	$619,935	$136,488	$756,423	$97,492	$853,915
2015 actual	$623,060	$154,593	$777,653	$147,149	$924,802
2016 forecast	$609,235	$180,725	$789,960	$148,484	$938,444
2017 forecast	$631,618	$206,670	$838,288	$149,295	$987,582
2018 forecast	$587,430	$220,638	$808,068	$148,384	$956,452
2019 forecast	$619,097	$225,911	$845,008	$147,018	$992,025
2020 forecast	$596,786	$221,881	$818,667	$137,751	$956,418
2021 forecast	$623,696	$214,906	$838,602	$137,501	$976,103
2022 forecast	$615,345	$205,400	$820,745	$137,409	$958,154

**Totals may not add due to rounding.*

Debt Authorized and Unissued

The state has authorized but not yet issued (sold) general obligation bonds for various purposes and trunk highway purposes totaling $1,196,011,800 as of November 30, 2015. In addition to the general obligation bonds, the state has appropriation bonds that are authorized that have not been sold. The 2014 Legislature authorized the sale of $80 million of state appropriation bonds to finance the Housing Finance Agency Housing Infrastructure bonding program, of which $11.335 million remains unissued as of November 2015. The 2015 Legislature authorized an additional $10 million in state appropriation bonds to finance the Housing Finance Agency Housing Infrastructure bonding program and $19 million for the Lewis and Clark Regional Water System, of which none of the bonds for these authorizations have been issued. Additional bond authorizations of state appropriation bonds include $10 million to finance the pay for performance bond program. None of the debt for these programs has been issued. The total amount of authorized and unissued tax-supported obligations is $1,246,346,800. All other currently authorized tax supported bond projects and/or programs have been issued.

Debt Capacity

The capital investment guidelines reflect a current fiscal year "point in time" calculation. Total state personal income is derived from the IHS data used to develop the November 2015 Budget and Economic Forecast and reflects the state 2016 fiscal year (not the 2015 calendar year). For any given bond authorization, bonds are typically sold over several years to make the funds available for the projects when needed, and not sooner.

Capacity Calculations as of November 2015 Forecast:

Guideline #1 compares the amount of tax-supported debt already sold to state personal income. Based on the information below, the state is below the 3.25% threshold. We are within our guideline.

Tax-supported principal sold	$8.223 billion
FY 2016 state personal income estimate – IHS forecast	$283.975 billion
As a percent of state personal income, not to exceed 3.25%	2.90%
Estimate of maximum amount of tax-supported debt that could be sold today before exceeding Guideline #1*	$1.006 billion*

*Bonds authorized are typically not sold all at once; they are sold over several years.

Guideline #2 compares the amount of debt that has already been sold and the amount that has been authorized in law but not yet sold to state personal income. This guideline includes tax-supported debt, state moral obligations, equipment capital lease, and real estate capital leases. Based on the information below, the state is below the 6% threshold. We are within our guideline.

Total principal sold plus authorized and not yet sold	$11.069 billion
FY 2016 state personal income estimate – IHS forecast	$283.975 billion
As a percent of state personal income, not to exceed 6.0%	3.90%
Estimated maximum amount of tax-supported debt that could be authorized before exceeding Guideline #2	$5.969 billion

Guideline #3 evaluates how quickly we pay off our general obligation bonds. Our goal is that no less than 40% of our general obligation debt is paid within five years and no less than 70% within ten years.

Of the State's general obligation bonds outstanding on June 30, 2015, 40.3 percent were scheduled to mature within five years and 71.0 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds expected to be outstanding on June 30, 2016, 40.3 percent are scheduled to mature within five years and 71.2 percent are scheduled to mature with ten years.

Capital Investment Guidelines
Summary of Outstanding Principal as of 11/30/2015
As of November 2015 Budget and Economic Forecast

Tax-Supported Debt (Guideline #1)	**Principal Outstanding**	**Authorized, Unissued**	**Total**
All State General Obligation Debt	$ 6,565,805,000	$ 1,196,011,800	$ 7,761,816,800
Certificates of Participation (SWIFT/Integrated Tax)	31,830,000	0	31,830,000
BCA Bemidji Lease Revenue Bonds	3,875,000	0	3,875,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	47,030,000	0	47,030,000
DHS Building	56,195,000	0	56,195,000
MHFA Supportive Housing 2008	27,270,000	0	27,270,000
MHFA Housing Infrastructure 2012	27,430,000	0	27,430,000
MHFA Housing Infrastructure 2014	63,665,000	11,335,000	75,000,000
MHFA Housing Infrastructure 2015		10,000,000	10,000,000
U of M:			
TCF Bank Stadium	99,220,000	0	99,220,000
Biosciences Facilities	182,420,000	0	182,420,000
State General Fund Appropriation Refunding Bonds	584,865,000	0	584,865,000
Professional Football Stadium Appropriation Bonds	453,770,000	0	453,770,000
Certificates of Participation - Legislative Office Facility	80,100,000	0	80,100,000
Lewis and Clark Regional Water System Bonds	0	19,000,000	19,000,000
Pay for Performance Appropriation Bonds	0	10,000,000	10,000,000
TOTAL - Tax-Supported Debt	$ 8,223,475,000	$ 1,246,346,800	$ 9,469,821,800

Other Obligations (Guideline #2)

Tax-Supported Debt (issued and authorized but unissued)	$ 9,469,821,800
MHFA Moral Obligation Debt [1]	1,097,540,000
MOHE Moral Obligation Debt	471,015,000
Equipment Leases	30,975,621
TOTAL - All Obligations	$ 11,069,352,421

FY 2016 State Personal Income Estimate - IHS Forecast:	283,975,000,000
State Tax-Supported Debt as a Percent of Personal Income:	2.90%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	$ 1,005,712,500
All Obligations as a Percent of Personal Income:	3.90%
Estimated maximum additional principal capacity for all obligations @ 6.0%	$ 5,969,147,579

[1] MHFA has a $5 billion statutory debt limit. However, several of the MHFA bonding programs are not issued as Moral Obligation debt. The bond programs that are not included because they are not secured by a debt service reserve fund subject to replenishment from Legislative appropriation are the conduit multifamily revenue bonds and bonds issued under Home Ownership Mortgage-backed Exempt Securities and Homeownership Finance Bonds.