



Debt Capacity Forecast

Report to the Minnesota State Legislature | December 7, 2021

Date: December 7, 2021

To: Legislative Reference Library

From: Jim Schowalter, Commissioner



Subject: Report to the Legislature - Debt Capacity Forecast

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

Attached is the November 2021 debt capacity forecast. The state remains in compliance with its Capital Investment Guidelines with nearly \$8.2 billion in outstanding debt.

Attachment

cc: Senator Jeremy Miller
Senator Melissa López Franzen
Senator Julie Rosen
Senator Thomas Bakk

Representative Melissa Hortman
Representative Kurt Daudt
Representative Rena Moran
Representative Fue Lee

Minnesota Management and Budget Debt Capacity Forecast | November 2021

Introduction

Minnesota Statutes, Section 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.

Statement of Indebtedness

The statement of indebtedness describes the amount of debt we are currently obligated to repay. As of December 7, 2021, the state of Minnesota has outstanding principal totaling \$8,184,685,000, which includes \$6,612,870,000 in outstanding principal for general obligation bonds (both various purpose and trunk highway bonds) and \$1,571,815,000 in outstanding principal for other tax-supported obligations. Please see the attached Exhibit 1 for more detail about these obligations.

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

Debt Service Costs

The details of the actual and forecasted debt service costs for all of the state’s tax-supported debt are provided in the following table. For the purpose of this forecast, the assumption for future capital budgets for various purpose general obligation bonds is \$880 million in the even-numbered years and \$135 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 and do not assume any additional bond authorizations. The column entitled “Other Tax-Supported Bonds” reflects the actual debt service obligations in each fiscal year for the non-general obligation debt identified in Exhibit 1; 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 IHS Markit (“IHS”) data used to develop the November 2021 Budget and Economic Forecast.

Annual Debt Service Costs

(\$ in Thousands)

		General Obligation Bonds				
<u>Fiscal Year</u>		<u>Various Purpose</u>	<u>Trunk Highway Fund</u>	<u>Subtotal</u>	<u>Other Tax Supported Bonds</u>	<u>Total</u>
2016	actual	\$609,285	\$180,725	\$790,010	\$148,484	\$938,494
2017	actual	\$529,215	\$193,539	\$722,754	\$150,838	\$873,593
2018	actual	\$563,123	\$211,009	\$774,133	\$150,439	\$924,572
2019	actual	\$549,785	\$214,903	\$764,688	\$150,675	\$915,363
2020	actual	\$540,081	\$209,821	\$749,902	\$144,487	\$894,389
2021	actual	\$515,544	\$177,571	\$693,115	\$145,383	\$838,498
2022	forecast	\$592,426	\$213,138	\$805,564	\$150,284	\$955,848
2023	forecast	\$606,410	\$265,206	\$871,616	\$161,528	\$1,033,144
2024	forecast	\$635,859	\$291,734	\$927,593	\$161,667	\$1,089,260
2025	forecast	\$636,864	\$306,593	\$943,427	\$161,935	\$1,105,362
2026	forecast	\$625,590	\$309,127	\$934,717	\$150,000	\$1,084,717
2027	forecast	\$643,411	\$306,938	\$950,348	\$150,591	\$1,100,940
2028	forecast	\$642,919	\$299,325	\$942,244	\$151,060	\$1,093,340

**Totals may not add due to rounding.*

Debt Authorized and Unissued

As of December 7, 2021, the state has authorized but not yet issued (sold) general obligation bonds for various purposes and trunk highway purposes totaling \$2,610,432,700. In addition to the general obligation bonds, the state has authorized appropriation bonds that have not been sold as of December 7, 2021. The 2020 Legislature authorized the sale of \$100 million of state appropriation bonds by the Housing Finance Agency to finance a housing infrastructure bonding program, of which \$43.790 million remains unissued. The 2015 and 2017 Legislatures authorized \$22.5 million of state appropriation bonds for the Lewis and Clark Regional Water System project, of which \$3.5 million remains unissued. The 2019 Legislature authorized \$97.720 million of state appropriation bonds for the Duluth Regional Exchange District of which \$25.820 million remains unissued. The 2011 Legislature authorized \$10 million in state appropriation bonds to finance the pay-for-performance bond program, which bonds remain unissued. The total amount of authorized and unissued tax-supported obligations is \$2,693,542,700. All other currently authorized tax-supported obligations have been issued.

The 2021 Legislature authorized an additional \$100 million of state appropriation bonds for the housing infrastructure bond program to be issued by the Housing Finance Agency, which authorization will only take effect on January 16, 2022 if the federal government does not appropriate and dedicate federal funds for the same purposes authorized in the housing infrastructure bond act by December 31, 2021. The 2021 Legislature also authorized the Commissioner of MMB to issue lease revenue bonds or certificates of participation to finance critical health, life safety, and security needs of State Capitol complex buildings constructed before 1940. A report is due to the legislature by January 1, 2022, detailing the estimated costs and timeline of the necessary work, which program plan and cost estimates must be approved by the affected building's primary tenant. When final plans are approved, the debt authorization for this will be included in the total for tax supported debt. The obligations in this paragraph are not yet reflected in the authorized but unissued debt described above.

Managing State Debt Capacity

MMB adopted Capital Investment Guidelines in December 2009, to measure and track the debt of the state. Debt or capital investment guidelines are used to assist in decision making, communicate policy goals, provide recommendations for the structure of debt issues, and demonstrate a commitment to long-term capital and financial planning. MMB's 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
- Continue Minnesota's responsible financial management practices

Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and therefore is likely to meet its debt obligations in a timely manner. Minnesota's Capital Investment Guidelines are:

1. Total tax-supported principal outstanding is 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 is due within five years and 70% within ten years, if consistent with the useful life of the financed assets and/or market conditions.

The first two guidelines help to determine our capacity for additional debt. Both guidelines compare the state's debt¹ to the state's personal income. The first comparison is what the state owes, based on the amount of debt we have sold. The second comparison is what the state would owe if all the debt

¹ "State debt" refers to tax-supported debt and includes state general obligation debt (both various purpose and trunk highway), certificates of participation and lease revenue bonds, state issued appropriation bonds, and other issuer bonds supported by a state appropriation.

that has been authorized were sold. The third guideline helps determine how well we manage how quickly we pay off our general obligation debt.

Debt Capacity Guideline #1

Guideline #1 compares the total amount of debt the state has sold and currently owes to the state’s personal income. Each bonding bill authorizes MMB to sell bonds and use the proceeds for the projects identified in the bill. For any given bond authorization, we typically sell bonds over a period of years to make the funds available for the projects when needed, and not sooner. For example, if \$880 million were authorized in 2022, we assume we would sell \$132 million of bonds in fiscal year 2023, an additional \$308 million in fiscal year 2024, and the remainder in the following years. It may be five years or more before the total amount authorized in each bonding bill is actually sold.

Our measure for Guideline #1 is that the amount of debt sold and currently owed does not exceed 3.25% of personal income. The state is currently within Guideline #1. See Exhibit 2 for the State’s compliance with Guideline #1 for the past 10 years.

Tax-supported principal sold	\$8.185 billion
FY 2022 state personal income estimate – IHS forecast	\$367.510 billion
As a percent of state personal income, not to exceed 3.25%	2.23%
Estimate of maximum amount of tax-supported debt that could be sold today before exceeding Guideline #1*	\$3.759 billion*

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

Debt Capacity Guideline #2

Guideline #2 compares the total amount of authorized state debt, including state moral obligations and equipment capital leases, to personal income. This guideline differs from the first guideline in that it includes all authorized state debt, whether it has been sold or not, and it also captures state moral obligations and equipment capital leases.

Our measure for Guideline #2 is that total debt authorized does not exceed 6% of personal income. The state is currently within Guideline #2. See Exhibit 2 for the State’s compliance with Guideline #2 for the past 10 years.

Total principal sold plus authorized and not yet sold	\$13.260 billion
FY 2022 state personal income estimate – IHS forecast	\$367.510 billion
As a percent of state personal income, not to exceed 6.0%	3.61%
Estimated maximum amount of additional tax-supported debt that could be authorized before exceeding Guideline #2	\$8.791 billion

Debt Capacity Guideline #3

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. MMB structures general obligation debt to comply with this guideline.

Of the state's general obligation bonds outstanding on June 30, 2021, 42.3% were scheduled to mature within five years and 75.0% were scheduled to mature with ten years. Furthermore, of the state's general obligation bonds expected to be outstanding on June 30, 2022, 42.2% are scheduled to mature within five years and 74.3% are scheduled to mature with ten years. The state is currently within Guideline #3.

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Maximum Debt Capacity under Current Guidelines

The maximum debt capacity refers to the amount of additional debt that could be authorized each legislative session without exceeding our debt guidelines. This information can be used to answer the question of how big a bonding bill *could* be, but does not suggest how big a bonding bill *should* be. The table below shows the maximum annual new debt authorizations until the limit in either Guideline #1 or Guideline #2 is reached. Our calculations assume that the maximum amount of state debt would be authorized. The table also shows the additional general fund debt service costs resulting from the maximum authorizations.

November 2021 Debt Capacity Report Maximum

<i>Dollars in millions</i>	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Bonding Bill Assumed in Nov '21 Forecast	\$880	\$135	\$880	\$135	\$880	\$135
Maximum New Debt Authorizations Within Debt Guidelines	\$3,500	\$2,400	\$1,900	\$1,100	\$2,600	\$1,700
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Impact on Guideline #1¹	2.40%	2.73%	3.15%	3.25%	3.24%	3.21%
Impact on Guideline #2¹	4.22%	4.44%	4.51%	4.36%	4.53%	4.46%
Additional Debt Service Required	\$41	\$174	\$387	\$472	\$559	\$660

¹ Impacts to Guidelines #1 and #2 from a bonding bill passed during regular legislative session are first reported in a November debt capacity forecast and therefore shown in the following fiscal year

Notes about the table above

1. The amounts listed in the “Maximum New Debt Authorizations” line could be allocated among any of the following types of debt: various purpose general obligation bonds, trunk highway general obligation bonds, state general fund appropriation bonds, certificates of participation and real estate and equipment capital leases.
2. The assumptions for personal income are based on the December 7, 2021 Forecast information provided by IHS. Changes to personal income in subsequent forecasts will change the estimated capacity of both Guidelines #1 and #2.
3. Impacts to Guideline #3 are not reflected in this table. MMB structures bond sales to remain in compliance with Guideline #3. The maximum debt authorizations shown in the table may require MMB to structure debt differently in the future, for example by frontloading the principal in certain maturities instead of selling bonds with level principal in each maturity.

Summary of Outstanding Principal as of 12/07/2021
November 2021 Budget and Economic Forecast

Tax-Supported Debt (Guideline #1)	Principal Outstanding	Authorized, Unissued	Total
All State General Obligation Debt			
General Fund State General Obligation Debt	\$4,398,625,000	\$1,166,097,482	\$5,564,722,482
Trunk Highway Fund General Obligation Debt	2,214,245,000	1,444,335,218	3,658,580,218
Other Real Estate Capital Leases:			
Ag/Health Buildings	21,640,000	0	21,640,000
DHS Building	25,745,000	0	25,745,000
MHFA Supportive Housing 2008	19,060,000	0	19,060,000
MHFA Housing Infrastructure 2012	21,185,000	0	21,185,000
MHFA Housing Infrastructure 2014	73,075,000	0	73,075,000
MHFA Housing Infrastructure 2015	10,370,000	0	10,370,000
MHFA Housing Infrastructure 2017	30,880,000	0	30,880,000
MHFA Housing Infrastructure 2018	77,260,000	0	77,260,000
MHFA Housing Infrastructure 2019	60,000,000	0	60,000,000
MHFA Housing Infrastructure 2020	56,210,000	43,790,000	100,000,000
U of M TCF Bank Stadium	59,190,000	0	59,190,000
U of M Biosciences Facilities	123,485,000	0	123,485,000
State General Fund Appropriation Refunding Bonds	393,375,000	0	393,375,000
Professional Football Stadium Appropriation Bonds	398,630,000	0	398,630,000
Certificates of Participation - Legislative Office Facility	67,675,000	0	67,675,000
Lewis and Clark Regional Water System Bonds	15,220,000	3,500,000	18,720,000
Duluth Regional Exchange Appropriation Bonds	73,220,000	25,820,000	99,040,000
Public Television Equipment Appropriation Bonds	14,050,000	0	14,050,000
Electric Vehicle Infrastructure Appropriation Bonds	1,875,000	0	1,875,000
Response to Releases Appropriation Bonds	29,670,000	0	29,670,000
Pay for Performance Appropriation Bonds	<u>0</u>	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL - Tax-Supported Debt⁽¹⁾⁽²⁾	\$8,184,685,000	\$2,693,542,700	\$10,878,227,700
Other Obligations (Guideline #2)			
Tax-Supported Debt (issued and authorized but unissued)			\$10,878,227,700
MHFA Moral Obligation Debt ⁽³⁾			1,830,005,000
MOHE Moral Obligation Debt			474,340,000
Equipment Leases			50,107,626
Guaranteed Energy Savings Program (GESp) Equipment Leases			27,177,733
TOTAL - All Obligations			\$13,259,858,059
FY 2022 State Personal Income Estimate - IHS Forecast:		\$ 367,510,000,000	
State Tax-Supported Debt as a Percent of Personal Income:		2.23%	
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%		\$ 3,759,390,000	
All Obligations as a Percent of Personal Income:		3.61%	
Estimated maximum additional principal capacity for all obligations @ 6.0%		\$ 8,790,741,941	

⁽¹⁾ The 2021 Legislature authorized an additional \$100 million of state appropriation bonds for MHFA's housing infrastructure bond program, which authorization will only take effect on January 16, 2022 if the federal government does not appropriate and dedicate federal funds for the same purposes authorized in the housing infrastructure bond act by December 31, 2021. If this authorization takes effect it will be reflected in the next report.

⁽²⁾ The 2021 Legislature authorized the Commissioner of MMB to issue lease revenue bonds or certificates of participation to finance critical health, life safety, and security needs of State Capitol complex buildings constructed before 1940. A report is due to the legislature by January 1, 2022, detailing the estimated costs and timeline of the necessary work, which program plan and cost estimates must be approved by the affected building's primary tenant. When final plans are approved, the debt authorization will be reflected in this report.

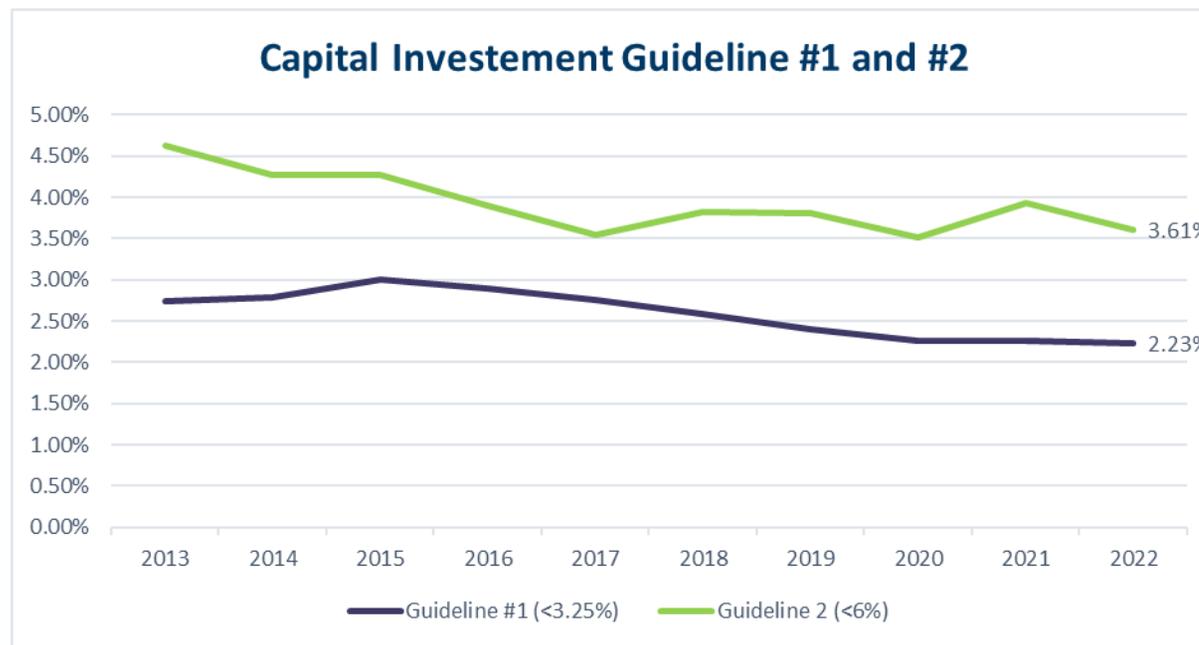
⁽³⁾ MHFA has a \$5 billion statutory debt limit. However, several of the MHFA bonding programs are not issued as Moral Obligation debt. The bond programs that are not included because they are not secured by a debt service reserve fund subject to replenishment from Legislative appropriation are the conduit multifamily revenue bonds and bonds issued under Home Ownership Mortgage-backed Exempt Securities and Homeownership Finance Bonds.



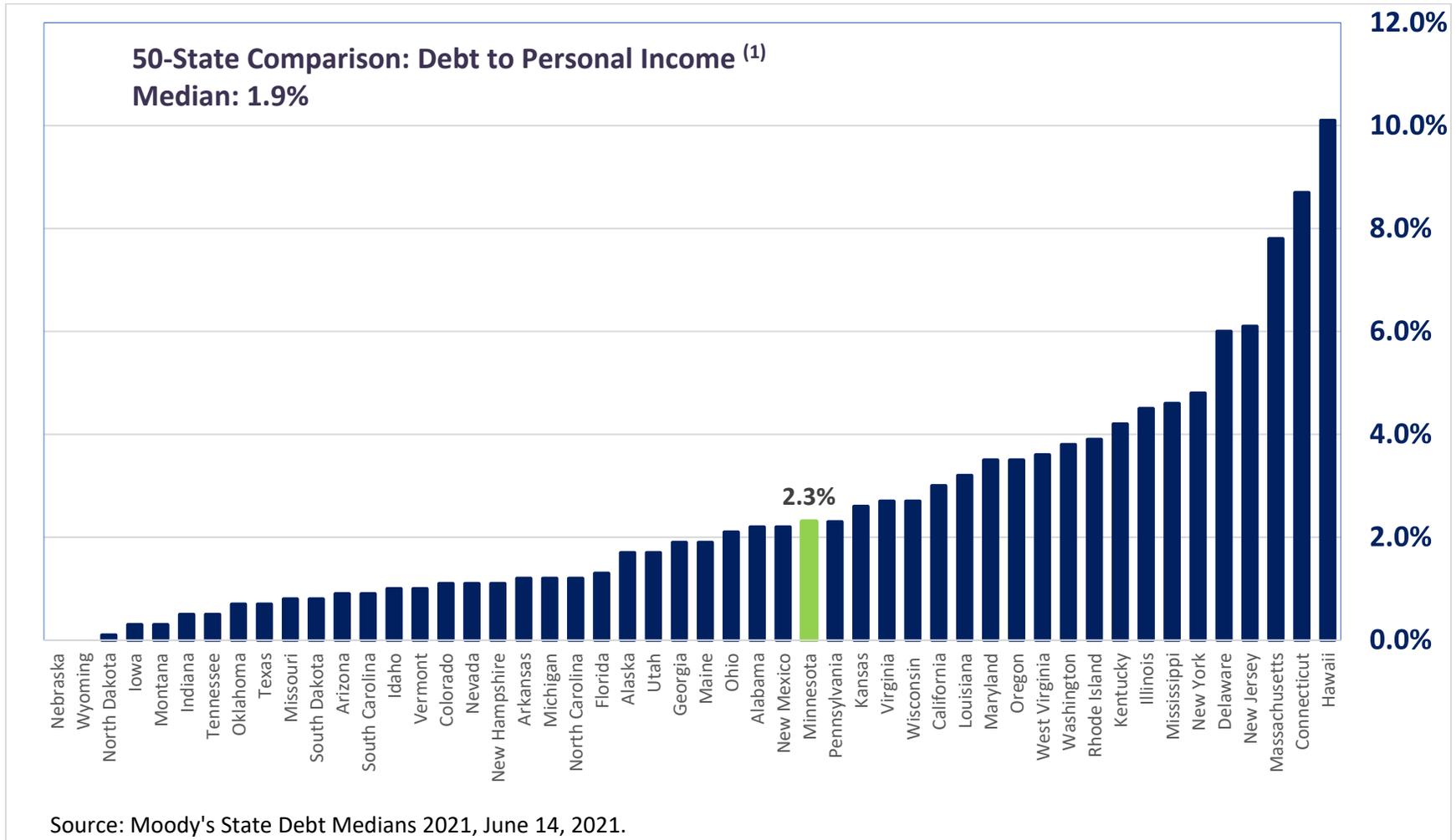
Historic and Comparative Debt Metrics

This Exhibit provides additional information regarding the State’s debt capacity. It includes a graph showing historic compliance with Guideline #1 and Guideline #2 under the State’s Capital Investment Guidelines, as well as graphs showing direct comparisons to the debt of other states.

The following graph shows the amount of outstanding debt owed compared to state personal income (Guideline #1) and the total amount of authorized debt compared to state personal income (Guideline #2) for each of the last 10 fiscal years.

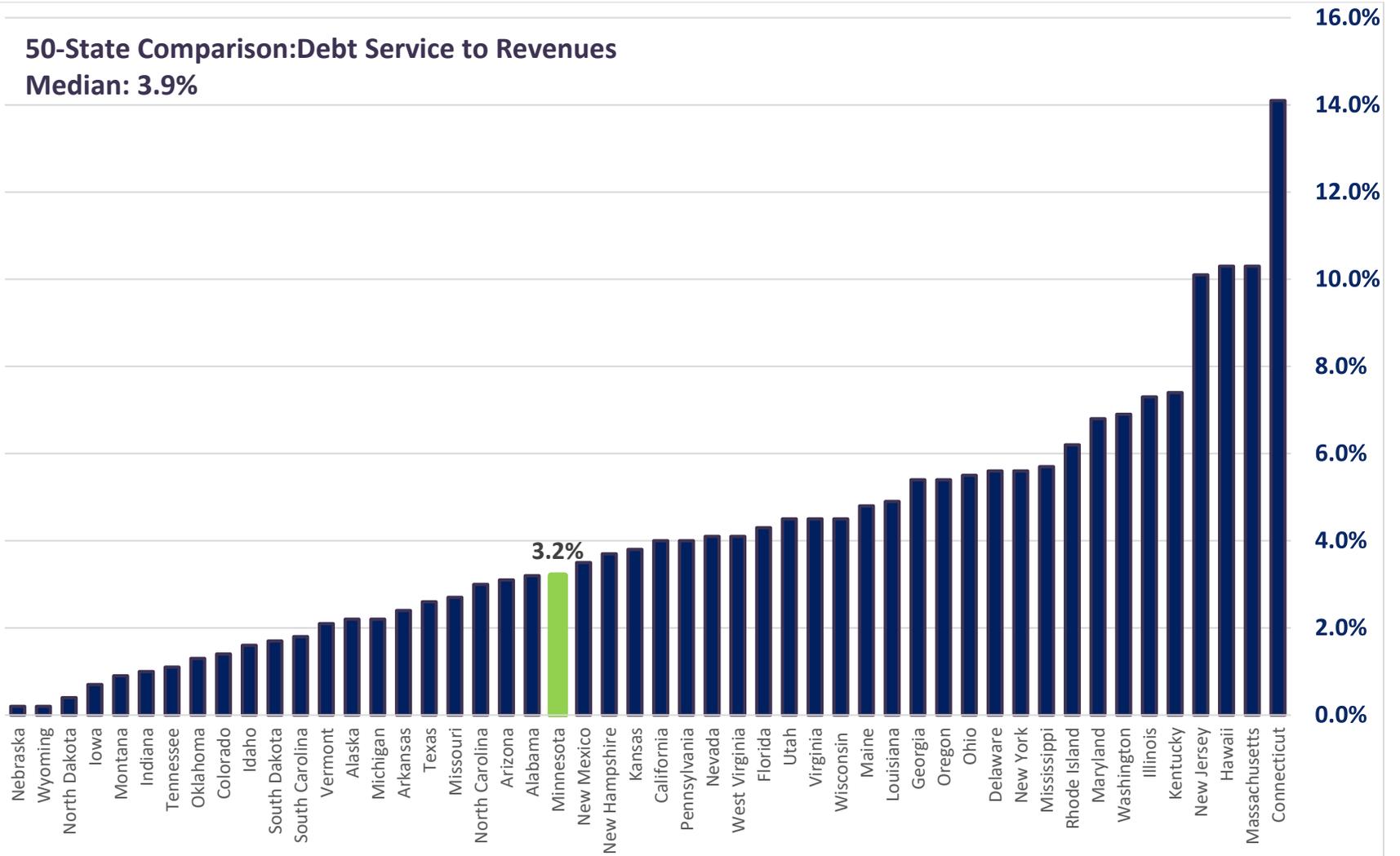


The following two graphs show how all 50 states compare on two commonly used debt capacity ratios – Debt to Personal Income and Debt Service to Revenues – highlighting how Minnesota ranks relative to the other states.



⁽¹⁾ Moody's compared 2019 personal income to 2020 net tax supported debt, while MMB's calculations throughout this report use current personal income estimates from IHS and current outstanding net tax supported debt. These factors account for the difference in the ratio reported by Moody's in this chart from MMB's Guideline #1 calculation.

50-State Comparison: Debt Service to Revenues
Median: 3.9%



Source: Moody's State Debt Medians 2021, June 14, 2021.