MINNESOTA
Management
& Budget

Office Memorandum

Date: December 5, 2012

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 November 2012 debt capacity report.

Attachment

cc: Senator David Senjem
Senator Thomas Bakk
Senator Claire Robling
Representative Kurt Zellers
Representative Matt Dean
Representative Paul Thissen
Representative Mary Liz Holberg
Representative Larry Howes

658 Cedar Street • 400 Centennial Office Building
Saint Paul, Minnesota 55155 • TTY: 1-800-627-3529
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Minnesota Management and Budget
Debt Capacity Forecast
November 2012

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 November 30, 2012, the state of Minnesota had $5,745,070,000 principal amount of general obligation bonds outstanding (consisting of both various purpose and trunk highway bonds), as well as $1,162,970,000 principal amount of other tax-supported obligations outstanding, for a total of $6,908,040,000 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 November 2012 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	$638,416	$192,452	$830,868	$49,240	$880,108
2015 forecast	$653,030	$194,599	$847,629	$49,201	$896,830
2016 forecast	$684,821	$201,900	$886,721	$49,178	$935,899
2017 forecast	$751,803	$203,617	$955,420	$49,166	$1,004,586
2018 forecast	$721,814	$204,885	$926,699	$49,133	$975,832
2019 forecast	$755,306	$206,906	$962,212	$49,105	$1,011,317

**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 November 30, 2012. 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 up to $498 million to finance the Professional Football Stadium Bonds, of which $348 million is the state's share and $150 million is for the city of Minneapolis' share. 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 the three new programs have been issued. The total amount of authorized and unissued tax-supported obligations is $2,623,632,700.

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 November 2012 revenue forecast and reflects the state 2013 fiscal year (not the 2012 calendar year).

Capacity Calculations as of November 2012 Forecast:

Guideline #1- Goal 3.25% or less:

Tax-supported principal outstanding	$6.908 billion
FY 2013 state personal income estimate – GII forecast	$251.683 billion
As a percent of state personal income, not to exceed 3.25%	2.74%
Estimated maximum additional principal capacity for all tax-supported debt	$1.272 billion

Guideline #2 - Goal 6.00% or less:

Total principal outstanding (issued, and authorized but unissued)	$11.639 billion
FY 2013 state personal income estimate – GII forecast	$251.683 billion
As a percent of state personal income, not to exceed 6.0%	4.62%
Estimated maximum additional principal capacity for all obligations	$3.462 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.

Impact of State General Fund Appropriation Refunding Bonds on Debt Service/Debt Management Guidelines

In November 2012 State General Fund Appropriation Refunding Bonds were issued to provide moneys to refund outstanding obligations of the TSA. MMB issued $656.22 million in State General Fund Appropriation Refunding Bonds to refund and defease $756.955 million of Tobacco Settlement Revenue Bonds. As of the date of this report, the State General Fund Appropriation Refunding Bonds will now count toward the state's Debt Management Guidelines #1 and #2. The additional state appropriation debt raised Guideline #1 from 2.48% to 2.74% and raised Guideline #2 from 4.36% to 4.62%. The refunding transaction saved the state $85 million in net present value.

Refunding of Certificates of Participation

MMB sold Certificates of Participation in 2009 and currently anticipates the defeasance of the portion of Certificates of Participation ("COP") used to finance the Department of Revenue ("DOR") Integrated Tax System. The defeasance will use 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 11/30/2012
As of November, 2012 Economic Forecast

Tax-Supported Debt (Guideline #1)	Principal Outstanding	Authorized, Unissued	Total
All State General Obligation Debt	5,745,070,000	2,030,517,700	7,775,587,700
Certificates of Participation (SWIFT/Integrated Tax)	54,060,000	0	54,060,000
BCA Bemidji Lease Revenue Bonds	5,230,000	0	5,230,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	64,515,000	0	64,515,000
DHS Building	77,835,000	0	77,835,000
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 - State Share	0	348,000,000	348,000,000
Professional Football Stadium Appropriation Bonds - Minneapolis Share	0	150,000,000	150,000,000
Pay for Performance Appropriation Bonds	0	10,000,000	10,000,000
TOTAL - Tax-Supported Debt	6,908,040,000	2,623,632,700	9,531,672,700

Other Obligations (Guideline #2)			
Tax-Supported Debt (issued and authorized but unissued)			9,531,672,700
MHFA Moral Obligation Debt (1)			1,474,855,000
MOHE Moral Obligation Debt			612,248,000
Equipment Leases			19,858,939
TOTAL - All Obligations			11,638,634,639

FY 2013 State Personal Income Estimate - GII Forecast:	251,682,500,000
State Tax-Supported Debt as a Percent of Personal Income:	2.74%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	1,271,641,250
All Obligations as a Percent of Personal Income:	4.62%
Estimated maximum additional principal capacity for all obligations @ 6.0%	3,462,315,361

(1) 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.