MINNESOTA Management & Budget

Office Memorandum

Date: March 2, 2010

To: Legislative Reference Library
Chief Clerk of the House of Representatives
Secretary of the Senate

From: Tom J. Hanson
Commissioner

TJH

Phone: 651-201-8010

Subject: Report to Legislature - Debt Capacity Report

Minnesota Statute 16A.105 requires the Commissioner of Minnesota Management and 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 2010 debt capacity report.

Attachment

cc:	Senator Pogemiller	Representative Anderson Kelliher
	Senator Senjem	Representative Zellers
	Senator Cohen	Representative Solberg
	Senator Langseth	Representative Carlson
		Representative Hausman

Minnesota Management and Budget
Debt Capacity Forecast
February 2010

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 new 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 new 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, 2010, the state of Minnesota had $5,013,325,000 principal amount of general obligation bonds outstanding (consisting of both various purpose and trunk highway bonds), as well as $379,165,000 principal amount of other tax-supported obligations outstanding, for a total of $5,392,490,000 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 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 $725 million in the even numbered legislative sessions and $140 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.

Actual and Forecast Annual Debt Service Costs

($ in Thousands)

Fiscal Year		General Obligation Bonds: Various Purpose	General Obligation Bonds: 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	forecast	$429,123	$70,542	$499,665	$28,574	$528,239
2011	forecast	$526,510	$92,905	$619,415	$33,944	$653,359
2012	forecast	$574,462	$124,096	$698,558	$44,040	$742,598
2013	forecast	$580,331	$139,855	$720,186	$48,286	$768,472
2014	forecast	$593,104	$149,881	$742,985	$51,024	$794,009
2015	forecast	$614,251	$169,494	$783,745	$51,711	$835,456

**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 $2,366,962,300 as of February 28, 2010. In addition, the legislature has authorized an additional $16,730,000 of debt to be issued for supportive housing by the Minnesota Housing Finance Agency and $219,000,000 of debt to be issued for biosciences facilities by the University of Minnesota. The total amount of authorized and unissued tax-supported obligations is $2,602,692,300.

Debt Capacity

The new 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 Global Insight data used to develop the February 2010 revenue forecast and reflects the state 2010 fiscal year (not the 2010 calendar year).

Capacity Calculations as of February 2010 Forecast:

Guideline #1:

Tax-supported principal outstanding	$5.392 billion
FY 2010 state personal income estimate – GII forecast	$222.083 billion
As a percent of state personal income	2.43%
Estimated maximum additional principal capacity for all tax-supported debt	$1.825 billion

Guideline #2:

Total principal outstanding (issued, and authorized but unissued)	$10.053 billion
FY 2010 state personal income estimate – GII forecast	$222.083 billion
As a percent of state personal income	4.53%
Estimated maximum additional principal capacity for all obligations	$3.272 billion

Guideline #3:

Of the State's general obligation bonds outstanding on June 30, 2009, 40.0 percent were scheduled to mature within five years and 70.0 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds expected to be outstanding on June 30, 2010, 40.7 percent are scheduled to mature within five years and 71.1 percent are scheduled to mature with ten years.

Capital Investment Guidelines
Summary of Outstanding Principal as of 2/2010
As of February, 2010 Forecast

Tax-Supported Debt (Guideline #1)	**Principal Outstanding**	**Authorized, Unissued**	**Total**
All G.O. Debt	5,013,325,000	2,366,962,300	7,380,287,300
Certificates of Participation (MAPS/Integrated Tax)	74,980,000	0	74,980,000
BCA Bemidji Lease Revenue Bonds	6,050,000	0	6,050,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	70,700,000	0	70,700,000
DHS Building	87,280,000	0	87,280,000
MHFA Supportive Housing	13,270,000	16,730,000	30,000,000
U of M:			
TCF Bank Stadium	126,885,000	0	126,885,000
Biosciences Facilities	0	219,000,000	219,000,000
TOTAL - Tax-Supported Debt	5,392,490,000	2,602,692,300	7,995,182,300

Other Obligations (Guideline #2)

Tax-Supported Debt (issued and authorized but unissued)	7,995,182,300
MHFA Moral Obligation Debt [1]	2,039,010,000
Equipment Leases	18,390,879
TOTAL - All Obligations	10,052,583,179

FY 2010 State Personal Income Estimate - GII Forecast:	222,082,800,000
State Tax-Supported Debt as a Percent of Personal Income:	2.43%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	1,825,201,000
All Obligations as a Percent of Personal Income:	4.53%
Estimated maximum additional principal capacity for all obligations @ 6.0%	3,272,384,821

[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.