




Office Memorandum

Date: February 28, 2018

To: Legislative Reference Library

From: Myron Frans, 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 February 2018 debt capacity forecast.

Attachment

cc: Senator Paul Gazelka
Senator Thomas M. Bakk
Senator Julie Rosen
Senator David Senjem

Representative Kurt Daudt
Representative Melissa Hortman
Representative Jim Knoblach
Representative Dean Urdahl

Minnesota Management and Budget

Debt Capacity Forecast

February 2018

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 February 28, 2018, the state of Minnesota has outstanding principal totaling \$7,802,060,000, which includes \$6,256,740,000 in outstanding principal for general obligation bonds (both various purpose and trunk highway bonds) and \$1,545,320,000 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 \$800 million in the even-numbered years 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 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 Economics (“IHS”) data used to develop the February 2018 Budget and Economic Forecast.

Annual Debt Service Costs
(\$ in Thousands)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>			<u>Other Tax</u>	<u>Total</u>
	<u>Various Purpose</u>	<u>Trunk Highway</u> <u>Fund</u>	<u>Subtotal</u>	<u>Supported Bonds</u>	
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 actual	\$609,285	\$180,725	\$790,010	\$148,484	\$938,494
2017 actual	\$529,215	\$193,539	\$722,754	\$150,838	\$873,592
2018 forecast	\$563,123	\$211,009	\$774,132	\$150,441	\$924,574
2019 forecast	\$575,007	\$216,125	\$791,132	\$150,374	\$941,506
2020 forecast	\$571,989	\$222,957	\$794,946	\$141,099	\$936,045
2021 forecast	\$605,977	\$230,318	\$836,295	\$150,832	\$987,127
2022 forecast	\$622,474	\$241,032	\$863,506	\$140,756	\$1,004,262
2023 forecast	\$601,667	\$255,712	\$857,379	\$139,311	\$996,689
2024 forecast	\$607,142	\$256,572	\$863,714	\$139,441	\$1,003,155

**Totals may not add due to rounding.*

Debt Authorized and Unissued

As of February 28, 2018, the state has authorized but not yet issued (sold) general obligation bonds for various purposes and trunk highway purposes totaling \$2,121,857,300. In addition to the general obligation bonds, the state has authorized appropriation bonds that have not been sold. The 2015 and 2017 Legislatures authorized the sale of \$65 million of state appropriation bonds by the Housing Finance Agency to finance a housing infrastructure bonding program, of which \$45.02 million remains unissued as of February 2018. The 2015 and 2017 Legislatures also authorized \$22.5 million of state appropriation bonds for the Lewis and Clark Regional Water System project, of which \$3.5 million remains unissued as of February 2018. The 2012 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 \$2,180,377,300. All other currently authorized tax-supported obligations have been issued.

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; and
- Continue Minnesota's conservative 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. 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.

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 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 \$800 million were authorized in 2018, we assume we would sell \$120 million of

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.

bonds in 2018, an additional \$280 million in 2019, 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.

Tax-supported principal sold	\$7.802 billion
FY 2018 state personal income estimate – IHS forecast	\$302.048 billion
As a percent of state personal income, not to exceed 3.25%	2.58%
Estimate of maximum amount of tax-supported debt that could be sold today before exceeding Guideline #1*	\$2.015 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, compared to the first guideline, which only includes the amount of bonds sold. 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.

Total principal sold <u>plus</u> authorized and not yet sold	\$11.636 billion
FY 2018 state personal income estimate – IHS forecast	\$302.048 billion
As a percent of state personal income, not to exceed 6.0%	3.85%
Estimated maximum amount of additional tax-supported debt that could be authorized before exceeding Guideline #2	\$6.487 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, 2017, 41.1 percent were scheduled to mature within five years and 72.1 percent were scheduled to mature with ten years. Furthermore, of the state’s general obligation bonds expected to be outstanding on June 30, 2018, 42.1 percent are scheduled to mature within five years and 73.4 percent are scheduled to mature with ten years. The state is currently within Guideline #3.

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.

<i>Dollars in millions</i>	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Bonding Bill Assumed in Feb '18 Forecast	\$800	\$230	\$800	\$230	\$800	\$230
Maximum New Debt Authorizations Within Debt Guidelines	\$3,500	\$1,220	\$800	\$750	\$2,700	\$1,350
Impact on Guideline #1	2.63%	2.89%	3.22%	3.25%	3.24%	3.25%
Impact on Guideline #2	4.58%	4.53%	4.36%	4.16%	4.47%	4.41%
Additional Debt Service Required	\$0	\$42	\$138	\$264	\$289	\$341

It is IMPORTANT to note that:

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 February 2018 Forecast information provided by IHS. Changes to personal income in subsequent forecasts will change the estimated capacity of both Guidelines #1 and #2.

Capital Investment Guidelines
Summary of Outstanding Principal as of 2/28/2018
As of February 2018 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	4,292,160,000	945,800,400	5,237,960,400
Trunk Highway Fund General Obligation Debt	1,964,580,000	1,176,056,900	3,140,636,900
Certificates of Participation (SWIFT/Integrated Tax)	16,675,000	0	16,675,000
BCA Bemidji Lease Revenue Bonds	2,350,000	0	2,350,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	35,075,000	0	35,075,000
DHS Building	42,025,000	0	42,025,000
MHFA Supportive Housing 2008	24,720,000	0	24,720,000
MHFA Housing Infrastructure 2012	25,480,000	0	25,480,000
MHFA Housing Infrastructure 2014	83,670,000	2,310,000	85,980,000
MHFA Housing Infrastructure 2015	7,035,000	7,710,000	14,745,000
MHFA Housing Infrastructure 2017	0	35,000,000	35,000,000
U of M:			
TCF Bank Stadium	80,745,000	0	80,745,000
Biosciences Facilities	171,655,000	0	171,655,000
State General Fund Appropriation Refunding Bonds	524,625,000	0	524,625,000
Professional Football Stadium Appropriation Bonds	436,630,000	0	436,630,000
Certificates of Participation - Legislative Office Facility	76,445,000	0	76,445,000
Lewis and Clark Regional Water System Bonds	18,190,000	3,500,000	21,690,000
Pay for Performance Appropriation Bonds	<u>0</u>	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL - Tax-Supported Debt	\$ 7,802,060,000	\$ 2,180,377,300	\$ 9,982,437,300
Other Obligations (Guideline #2)			
Tax-Supported Debt (issued and authorized but unissued)			\$ 9,982,437,300
MHFA Moral Obligation Debt ⁽¹⁾			1,146,375,000
MOHE Moral Obligation Debt			463,715,000
Equipment Leases			30,896,741
Guaranteed Energy Savings Program (GESP) Equipment Leases			12,853,089
TOTAL - All Obligations			\$ 11,636,277,130
FY 2018 State Personal Income Estimate - IHS Forecast:		\$ 302,048,000,000	
State Tax-Supported Debt as a Percent of Personal Income:		2.58%	
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%		\$ 2,014,500,000	
All Obligations as a Percent of Personal Income:		3.85%	
Estimated maximum additional principal capacity for all obligations @ 6.0%		\$ 6,486,602,870	

⁽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.