

# **Capital Investment and State Bonding**

Presentation to the House Capital  
Investment Committee

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# Role of House Research and House Fiscal

- Serve all members and committees of the House
- Confidential and neutral
- Subject matter expertise
- House Research:
  - During Session: bill drafting, committee staffing, research
  - During Interim: publications, interim committees
- House Fiscal:
  - During Session: request and fiscal notes, staff fiscal committees, work with members on the fiscal impacts of bills
  - During Interim: publications, interim committees

# Bonds

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- Municipal bonds: debt securities issued by states, cities, counties, and other governmental entities
- Issued to finance capital projects (buildings, roads, sewer systems, etc.)
- Issuer agrees to repay to the bondholders the principal with interest in the time specified.

# Bonds

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Bonds may be described based on:

- issuer (state, municipality, special district)
- purpose (transportation, building, sewer)
- source of payment (general obligation, revenue)
- maturity structure (serial vs. term)
- price (discount vs. premium)
- tax status (taxable or tax-exempt)
- rate (variable or fixed rate)
- term (long or short-term)

# Authority

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- State Constitution
- Minnesota Statutes
- Federal Law

# State General Obligation Bonds

- Backed by “full faith, credit and taxing powers”
- Must be:
  - For a public purpose
  - Authorized in the state constitution
  - Specified in law
  - Mature in no more than 20 years
- Originate in the House

# Bonds to Acquire and Better Public Land and Buildings

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- Capital project
- Publicly owned
- Three-fifths vote of the House and Senate

# Other Constitutionally Authorized Uses of GO Bonds

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- To repel invasion or suppress insurrection (1857)
- To borrow temporarily through certificates of indebtedness (1962)
- To refund outstanding bonds of the state or its agencies (1962)
- To establish and maintain highways subject to constitutional limitations on highway bonds (1924)
- To promote forestation and prevent and abate forest fires (1924)
- To construct, improve, and operate airports and other air navigation facilities (1944)
- To develop the state's agricultural resources by extending credit on real estate (1922)
- To improve and rehabilitate public or private railroad rights-of-way and other rail facilities up to \$200 million par value (1982)
- As otherwise authorized in the constitution



# Other Topics

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- No reimbursement
- Role of bond counsel
- Use of state bond-financed property
- Nonstate match requirements
- Comparison of state and local bonding

	State G.O. Bonding	Local G.O. Bonding
Referendum requirement	X	✓
Limit on net debt	X	✓
Public ownership	✓	X
Purposes specified in constitution	✓	X

# Other Capital Funding

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- General fund
- Revenue bonds
- Appropriation bonds
- Agency bonds, payable from standing appropriations
- Lease-purchase financing for equipment
- Lease-purchase financing for real estate
- Credit enhancement programs

# Capital Appropriation Cancellations

January 1 of each odd-numbered year, MMB must report on the cancellation of projects authorized more than four years before January 1. The unobligated, unencumbered, or unspent project balances included in the report are canceled effective July 1 unless specifically reauthorized by law. Minn. Stat. § 16A.642.

# State Bond Issuers

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- Department of Management and Budget
- Minnesota Housing Finance Agency
- University of Minnesota
- Public Facilities Authority
- Higher Education Facilities Authority
- Tobacco Securitization Authority
- Office of Higher Education
- Agriculture and Economic Development Board
- Minnesota State Colleges and Universities (MnSCU)
- Rural Finance Authority
- Minnesota State Armory Building Commission

# Capital Investment Guidelines

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- Not in law
- Total tax-supported principal outstanding shall be 3.25 percent or less of total state personal income
- Total principal, both issued and authorized but unissued, for state general obligations, moral obligations, equipment capital leases, and real estate capital leases must not exceed 6 percent of state personal income
- 40 percent of GO debt must be due within five years and 70 percent within ten years, if consistent with the useful life of the financed assets and market conditions

# Committee Accounts

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- Debt Service
  - Cost of GO debt
  - Does not include Trunk Highway debt service
- Capital Projects
  - Debt service on appropriations bonds
  - General fund ‘cash’ spending on capital projects
- Committee Spreadsheets
  - Bill list
  - Tracking sheet
  - State Debt Sheet

# Resources

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- MMB: <https://mn.gov/mmb/budget/capital-budget/>  
<https://mn.gov/mmb/debt-management/>
- Minnesota State Constitution:  
<https://www.revisor.mn.gov/constitution/>
- Minn. Stat., ch. 16A:  
<https://www.revisor.mn.gov/statutes/?id=16A>