State of Minnesota Bond Fact Sheet

General Obligation Bonds (count against Capital Investment Guideline)

- A security backed by the full faith and credit of the state; the state will levy a property tax, if necessary, to meet its debt service obligations
- Each bond issue must distinctly specify the purposes and maximum amount of proceeds authorized to be expended for such purposes
- Requires 60 percent of the vote of each legislative body
- Bond financed property must be: (1) Publicly owned, (2) Constitute a capital expenditure, **and** (3) for a public purpose
- The legislative bodies and the Governor are bound by the obligations
- Maximum maturity of 20 years

Revenue Bonds (do NOT count against Capital Investment Guideline)

- Bonds whose principal and interest are payable exclusively by a pledged revenue stream, not the full faith and credit of the state
- May be enacted with a simple majority of each legislative body
- State cannot issue revenue bonds supported by a tax of statewide application – these securities become general obligation bonds
- Pledged revenue stream must have collections in excess of 100% of debt service costs (coverage)
- Coverage requirements differ by the types of revenue streams pledged
- Depending on market conditions, debt service costs may be higher than general obligation bonds and are based on the type of pledged revenue stream, historical/projected coverage, revenue volatility, ratings, etc.
- Most revenue bonds are structured to achieve overall level debt service or to match the revenue stream
- Maximum maturity dependent on project life and/or market conditions
- Needs legislative authority for project/program, dollar amount of program, and length of bonds

Appropriation Bonds (count against Capital Investment Guideline)

- The obligation to pay debt service is contingent upon inclusion of the debt service payment in the issuer's adopted budget (the appropriation) – the State has no legal obligation to continue appropriating funds to make debt service payments
- Each future legislature (subject to the Governor's veto authority) may rescind the commitment to make the payment on the appropriation bond
- May be enacted with a simple majority of each legislative body
- Maximum maturity dependent on project life and/or market conditions
- Rating agencies and investors consider appropriation bonds obligations of the State; the State's failure to make an appropriation would be a reflection on the State's willingness to make good on its commitments and would have negative consequences for future bond issuance (including GO bonds)
- Ratings would be one notch below the State's general obligation bond rating
- Types of appropriation bonds/debt include lease purchase financing/certificates of participation
- Needs legislative authority for project/program, dollar amount of program, and length of bonds
- The State may identify a revenue stream to pay the bonds, but such revenue stream is not pledged

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