

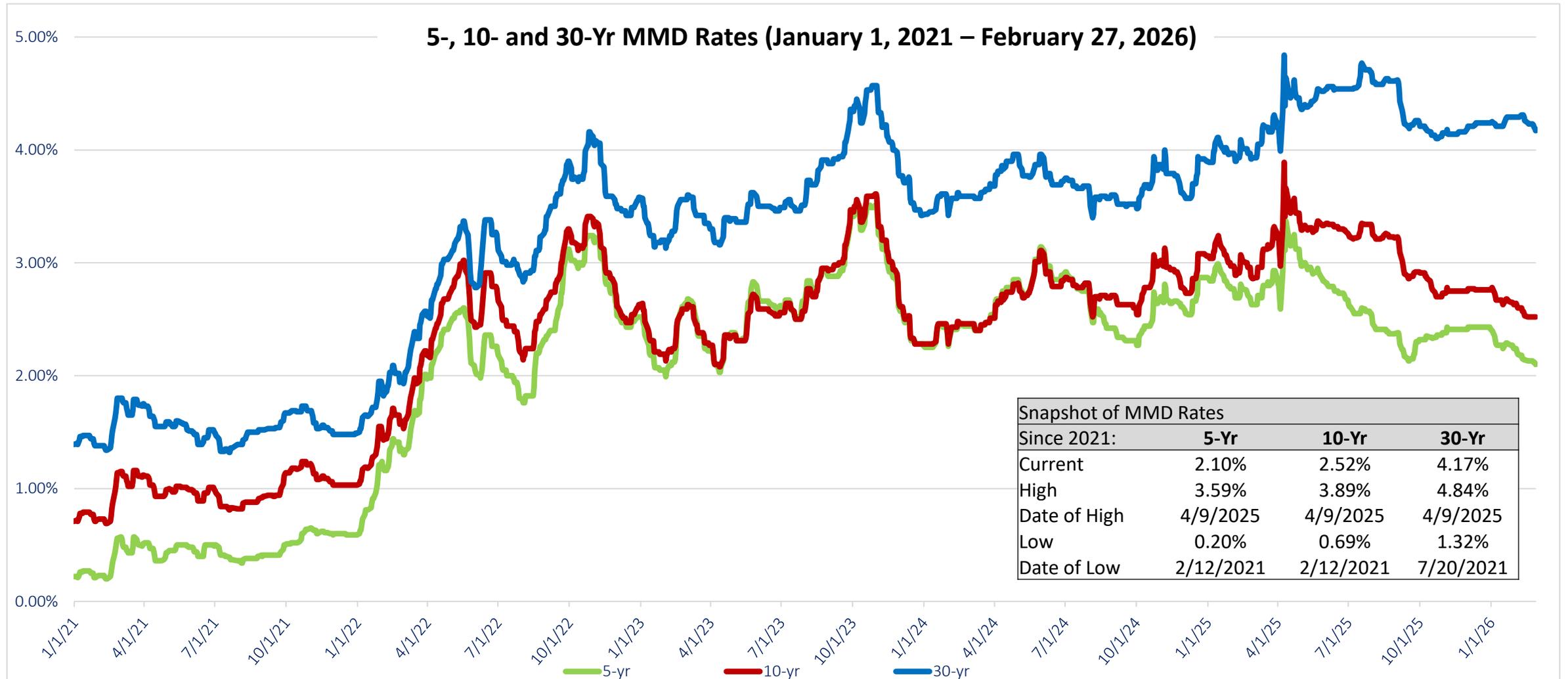


Debt Guidelines and Debt Capacity

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Municipal Bond Market

Municipal Bond Market Since 2021



Historical MMD Rates

Debt Guidelines

Purpose and Objectives of Debt Guidelines

- Debt guidelines exist to help the State balance today's capital needs with future fiscal capacity, in a way that preserves flexibility, affordability, and long-term financial strength.
 - Forward-looking approach supports planning for ongoing capital investment needs
 - Balances borrowing capacity with long-term fiscal discipline
 - Establishes responsible guardrails that promote resilience across economic cycles
 - Consistent adherence demonstrates good governance, and strengthens confidence among investors and rating agencies

Technical Review of Debt Guidelines

- MMB undertook a technical review of the debt guidelines over the past several months to ensure ongoing alignment with national best practices
- Working group reviewed rating agency materials, comparative analysis of highly-rated peer states, and legislative feedback
- Published some updates to the debt guidelines policy that substantially reaffirm the state's core metrics and also introduce some policy benchmarks to set more realistic and sustainable planning ranges
- These guidelines remain consistent with how rating agencies measure debt, inclusive of all debt obligations, and reflect strong financial management

Updated Debt Guidelines

Guideline #1: Total outstanding principal for tax-supported debt shall not exceed 3.25% of state personal income

- Planning benchmark of 2.5% of state personal income

Guideline #2: Total authorized principal for tax-supported debt, including state moral obligations and equipment capital leases, shall not exceed 6% of state personal income

- Planning benchmark of 5.25% of state personal income

Guideline #3: At least 40% of outstanding general obligation debt shall be scheduled to mature within five years, and at least 70% within ten years

- Temporary, time-bound floors of 38% (5-year measure) and 68% (10-year measure)

Types of Debt Measured in Guidelines

- General obligation bonds (various purpose and trunk highway)
- State appropriation bonds
- Agency bonds, payable from standing appropriations
- Lease-purchase financing for real estate
- Lease-purchase financing for equipment
- Moral obligation debt
- But not “self-supporting debt” (for example, revenue bonds)

Debt Guideline #1

- **Guideline #1:** Total outstanding principal for tax-supported debt shall not exceed 3.25% of state personal income, with a planning benchmark of 2.5%.
Feb. 2026: 1.83%
- Measures debt capacity relative to economic base
- Planning benchmark indicates a more realistic and sustainable planning range and provides a buffer
- What debt is included?
 - State Issued Debt – General Obligation; Appropriation Bonds; Certificates of Participation
 - State-Supported Debt – Minnesota Housing Finance Agency and University of Minnesota

Debt Guideline #2

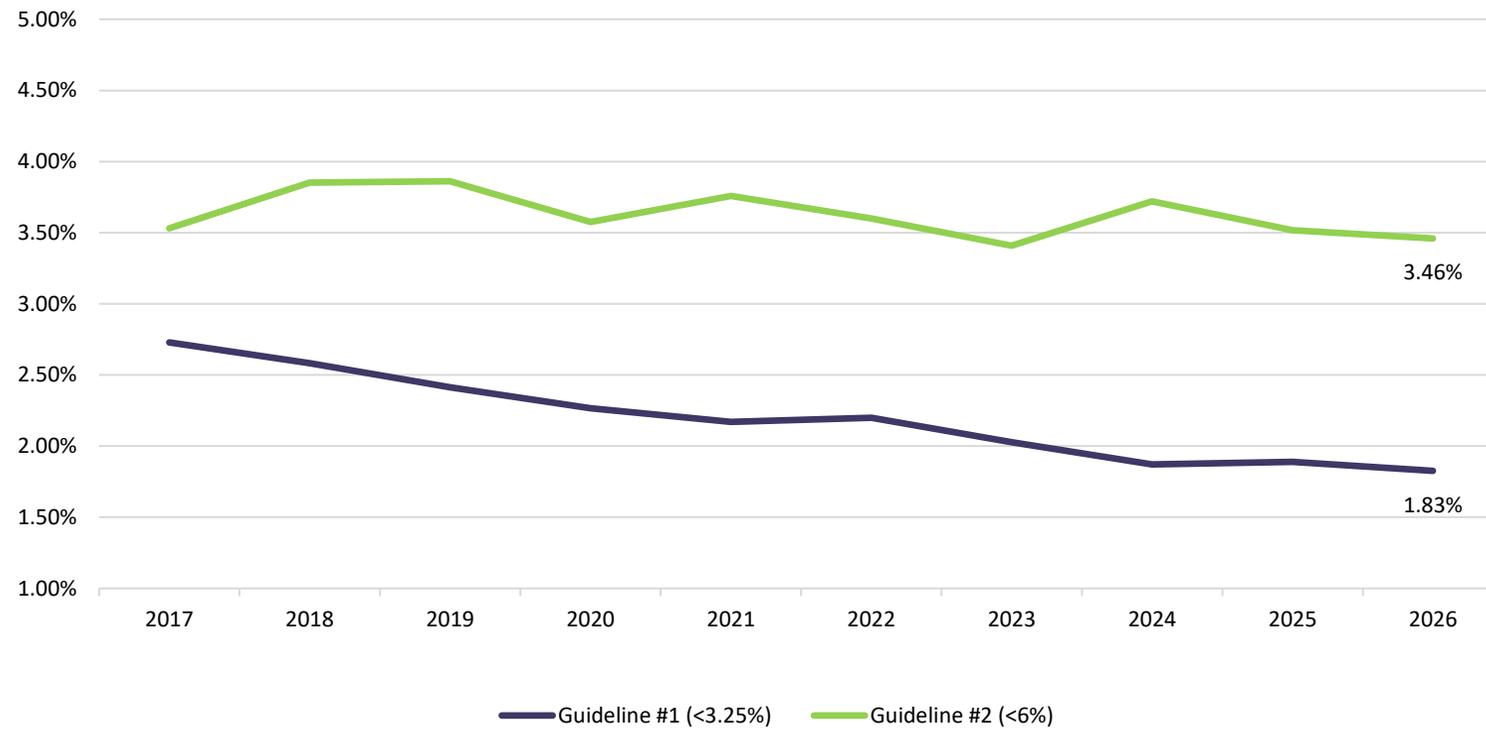
- **Guideline #2:** Total authorized principal for tax-supported debt, including moral obligations and equipment capital leases, shall not exceed 6% of state personal income, with a planning benchmark of 5.25%. **Feb. 2026: 3.46%**
- Provides transparency around future commitments
- Planning benchmark serves as an early warning indicator
- What debt is included?
 - All debt types included in Guideline #1, including authorized but unissued
 - Moral obligations (Housing Finance Agency, Office of Higher Education)
 - Lease purchase financing for equipment

Debt Guideline #3

- **Guideline #3:** At least 40% of outstanding state G.O. bonds shall be scheduled to mature within 5 years and 70% within 10 years, with temporary, time-bound floors of 38% and 68%. **Feb. 2026: 42.4% / 72.4%**
- Cost of bonding bills are realized more quickly
- Purpose is to preserve long-term budgetary flexibility and additional borrowing capacity for future legislatures
- Floors permit temporary deviations due to timing factors, with expectation of return to full compliance within six years

Guidelines #1 and #2 Remain within Historic Range

Debt Guidelines #1 and #2



Debt Capacity

Managing State Debt Capacity

Guidelines reflect a point in time

- Once bonds are authorized, they first appear in Guideline #2
- Once bonds are issued, they also appear in Guideline #1
 - Bonds are sold on a cash flow needs basis; the full authorization is not issued at once

Debt Capacity reflects projections

- Helps answer question, *How big could the bonding bill be?*
- Forecast no longer includes assumptions about the size of future bonding bills

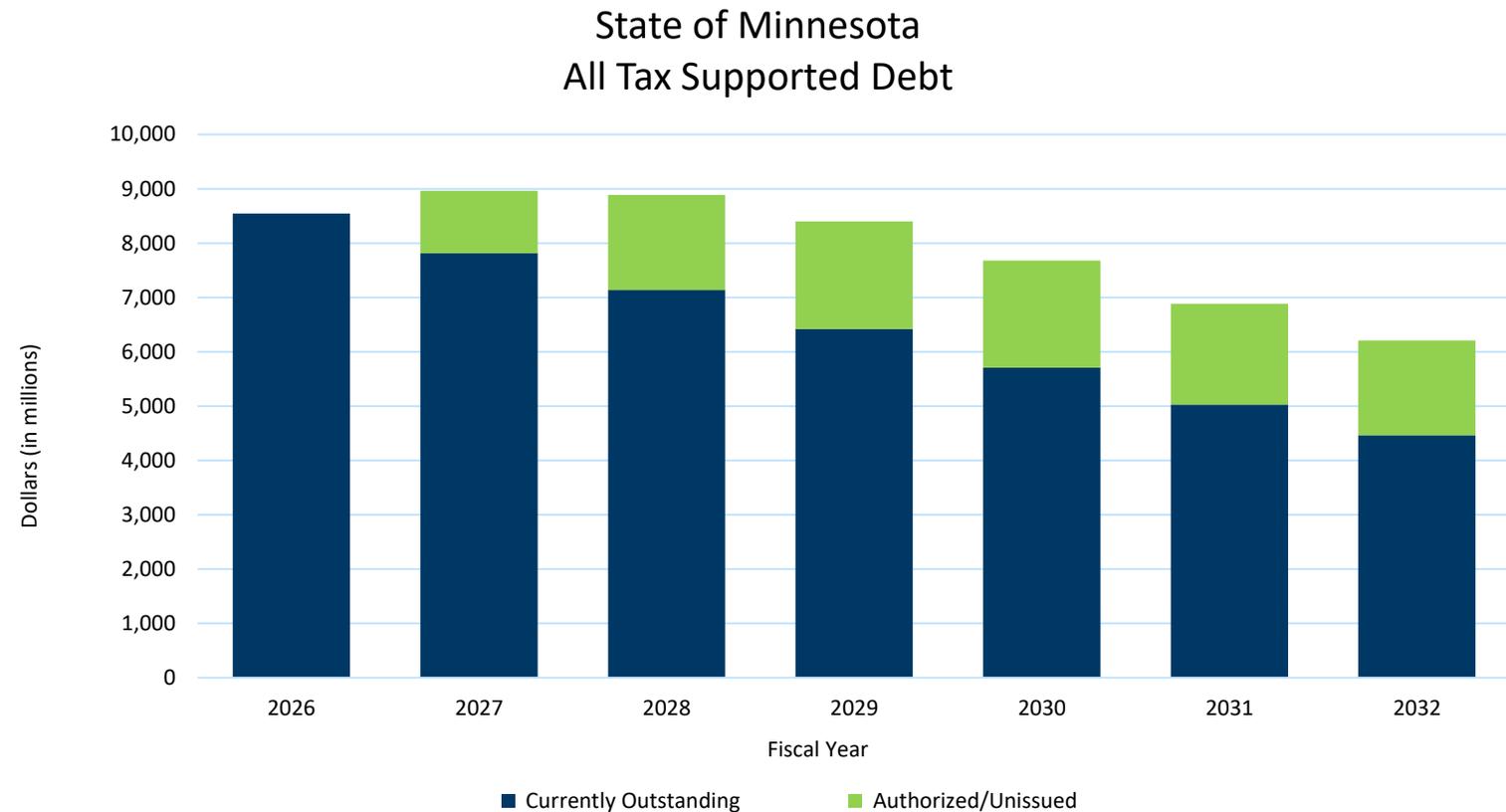
Statement of Indebtedness

- Debt Capacity Forecast published according to Minn. Stat. 16A.105
 - Statement of indebtedness
 - Annual debt service costs
 - Borrowing capacity for next 6 fiscal years

<i>(as of 2/27/2026)</i>	Principal Outstanding	Authorized, Unissued
General Obligation Bonds	\$4,551,445,000	\$1,295,406,553
Trunk Highway Bonds	\$2,553,515,000	\$936,196,586
Annual Appropriation Debt	\$1,439,980,000	\$50,000,000
Total	\$8,544,940,000	\$2,281,603,139

Debt Portfolio Over Planning Horizon

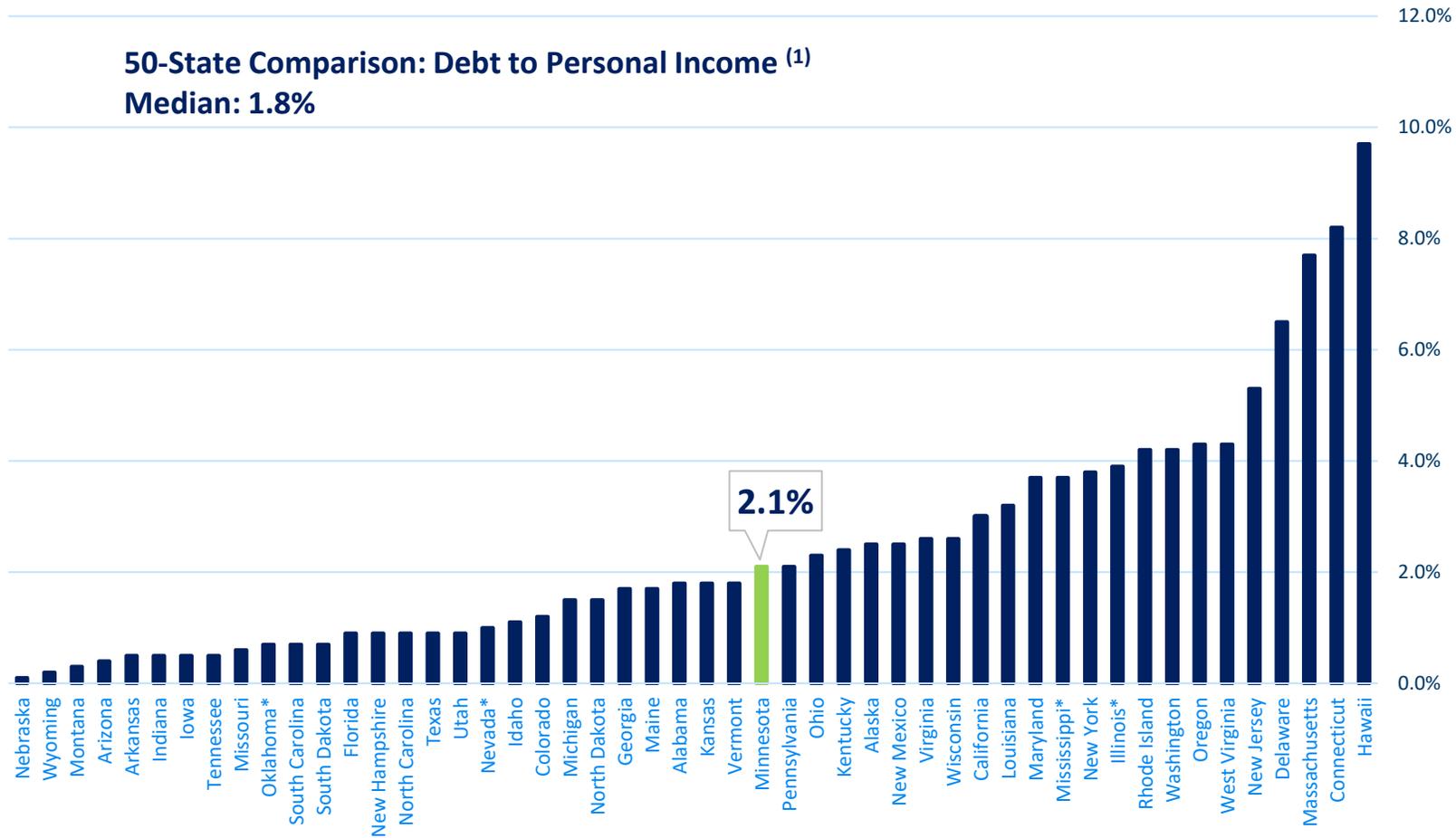
- Total outstanding debt is \$8.5 billion
- Authorized and unissued debt is \$2.3 billion
- Does not reflect any future bonding authorizations



2026 Bonding Bill Upper Capacity Limits

- Debt Capacity Forecast models the outer boundaries of each guideline
- Each guideline measures debt differently, and because of these differences the maximum authorization amounts can vary
- Under current assumptions for 2026:
 - Guidelines 1 and 2 could permit \$4 billion based on personal income
 - Guideline 3 permits \$1.2 billion under a level principal structure
- The planning benchmarks and temporary floors provide flexibility, but using that flexibility involves trade-offs for future capacity

State-by-State Comparison



Source: Moody's State Debt Medians 2025, September 19, 2025

Cancellation Report

Cancellations (M.S. §16A.642)

- Commissioner of MMB issues cancellation report by February 1 of each year
- Lists all bond and general fund capital appropriations previously enacted > 4 years ago with unspent and unencumbered balances
- The 2026 report showed amounts authorized in 2021 and earlier
 - Total of \$2.5 million in GO bonds and \$6.7 million in General Fund cash
- Such balances will be cancelled as of July 1 of the year of the report
- Cancelled balances go to repay state bonds or to the general fund

Thank you

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<https://mn.gov/mmb/debt-management/>

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