



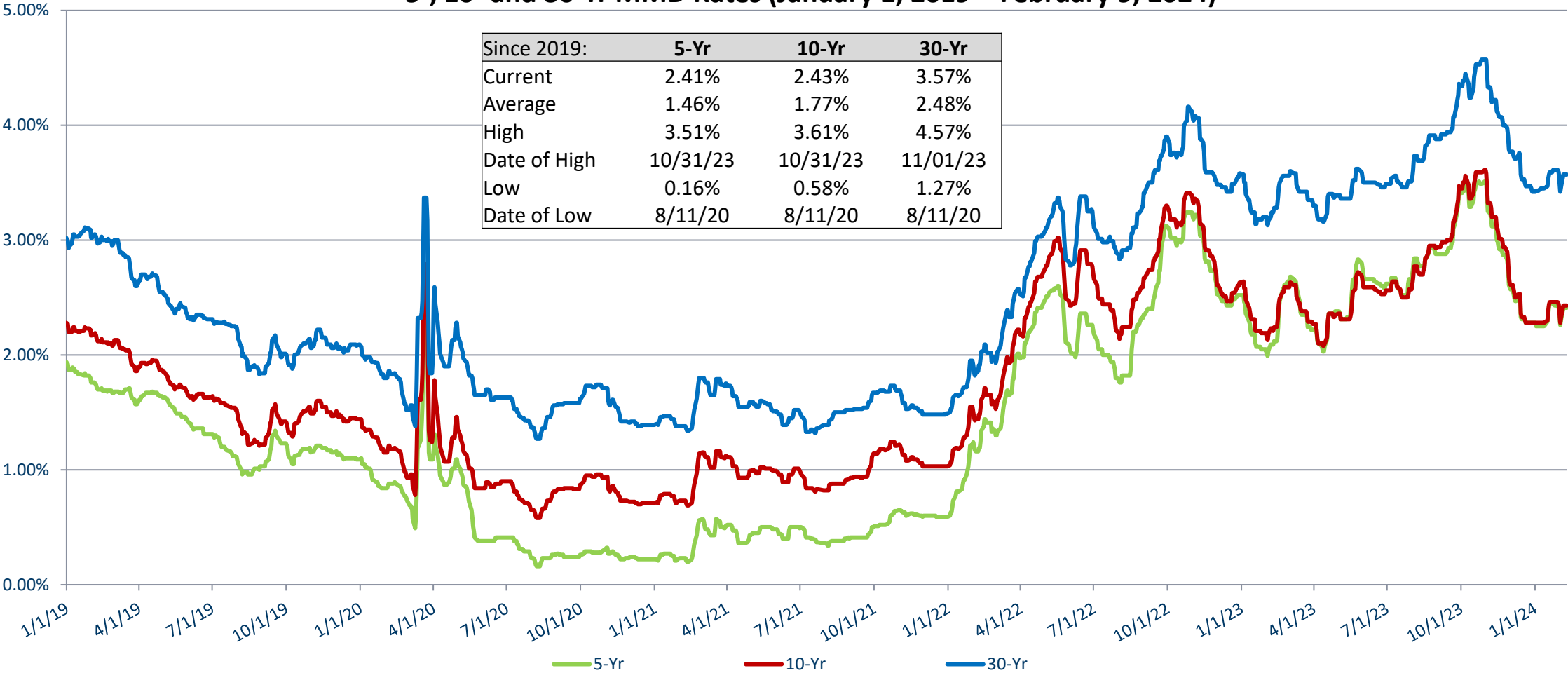
Capital Investment Guidelines, Debt Capacity and Cancellation Report

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Municipal Bond Market

Municipal Bond Market Since 2019

5-, 10- and 30-Yr MMD Rates (January 1, 2019 – February 9, 2024)



Historical MMD Rates

Source: TM3/Refinitiv

Capital Investment Guidelines

Purpose of Minnesota's Capital Investment Guidelines

- Why have guidelines?
 - Guide decision making
 - Communicate policy goals
 - Demonstrate commitment to long-term capital and financial planning
- Why these guidelines?
 - Consistent with other states and rating agency review
 - Inclusive of all debt obligations
 - Represent Minnesota's strong financial management

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)

Capital Investment Guideline #1

- **Guideline #1:** Total tax-supported principal outstanding (sold) shall be 3.25% or less of total state personal income. **Nov. 2023: 1.86%**
- Purpose is to measure the capacity to repay debt
- What debt is included?
 - State Issued Debt
 - General Obligation Various Purpose Bonds; General Obligation Trunk Highway Bonds; State Appropriation Bonds; Certificates of Participation
 - State-Supported Debt
 - State standing appropriations (University of Minnesota and Minnesota Housing Finance Agency); Lease-Purchase Financing for Real Estate

Capital Investment Guideline #2

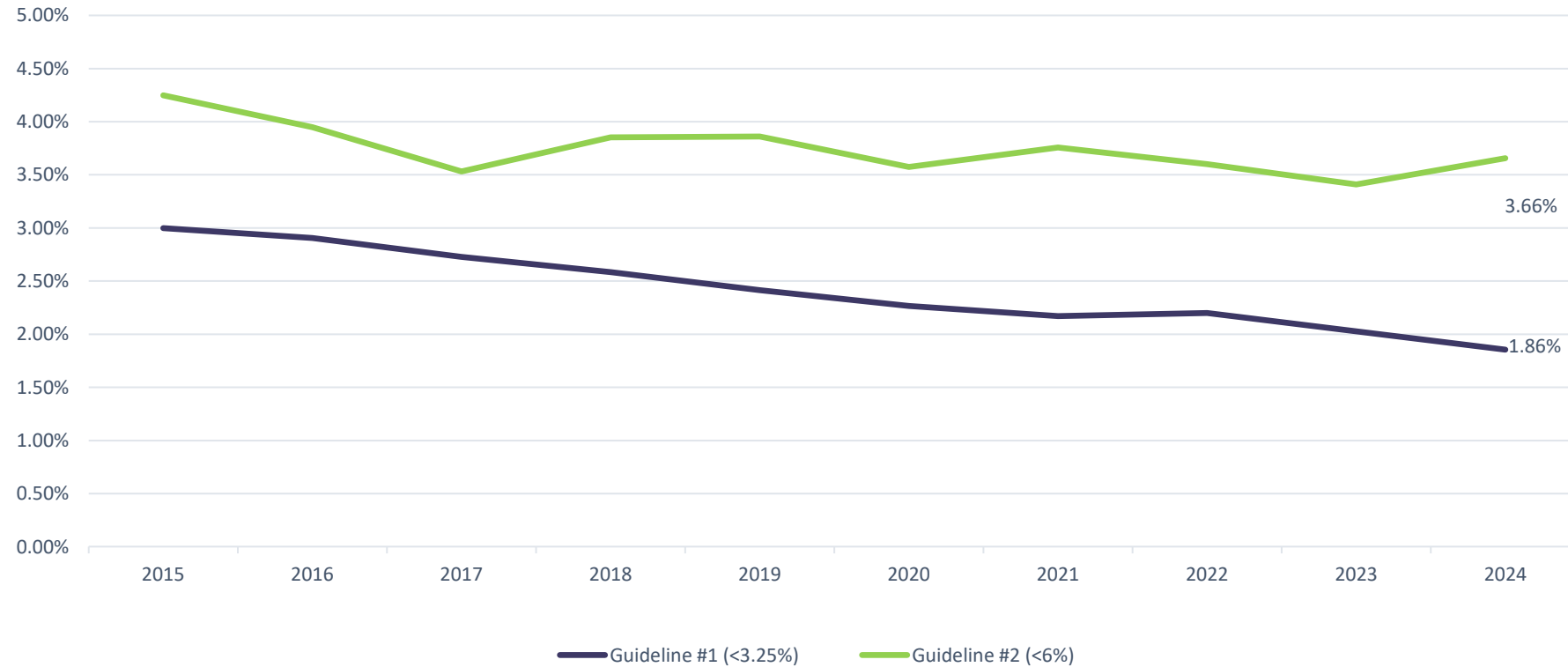
- **Guideline #2:** Total amount of tax-supported principal (both sold and authorized/unsold) for state general obligations, state moral obligations, equipment capital leases and real estate capital leases shall not exceed 6% of total state personal income. **Nov. 2023: 3.66%**
- What debt is included?
 - All debt types included in Guideline #1, including authorized but unissued, plus
 - Moral obligations (Housing Finance Agency, Office of Higher Education)
 - Lease purchase financing for equipment

Capital Investment Guideline #3

- **Guideline #3:** At least 40% of state G.O. bonds are to mature within 5 years and 70% within 10 years. **Nov. 2023: 43.4% / 75.6%**
- Cost of bonding bills are realized more quickly
- Purpose is to preserve additional borrowing capacity for future legislatures

Guidelines #1 and #2 Remain within Historic Range

Capital Investment Guidelines #1 and #2



Debt Capacity

Statement of Indebtedness

- Debt Capacity Report published according to Minn. Stat. 16A.105
 - Statement of indebtedness
 - Debt service costs
 - Borrowing capacity

<i>(as of 11/30/2023)</i>	Principal Outstanding	Authorized, Unissued
General Obligation Bonds	\$3,933,345,000	\$2,211,409,586
Trunk Highway Bonds	\$2,317,635,000	\$1,556,616,894
Annual Appropriation Debt	\$1,598,375,000	\$12,960,000
Total	\$7,849,355,000	\$3,780,986,480

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?*
 - Based on forecast assumptions of 10-year historic rolling average
 - \$830 million in 2024 / \$1.01 billion in even years / \$165 million in odd years (November 2023 Forecast)

Guideline #1 & #2 Capacity

November 2023 Debt Capacity Report Maximum: Personal Income (Guidelines #1 and #2)

<i>Dollars in millions</i>	FY24	FY25	FY26	FY27	FY28	FY29
Bonding Bills Assumed in Nov. 2023 Forecast	\$830	\$165	\$1,010	\$165	\$1,010	\$165
Maximum New Debt Authorizations Within Debt Guidelines #1 and #2	\$3,300	\$2,300	\$2,800	\$2,300	\$2,800	\$2,300
	FY25	FY26	FY27	FY28	FY29	FY30
Impact on Guideline #1	2.14%	2.39%	2.78%	2.99%	3.18%	3.25%
Impact on Guideline #2	4.12%	4.29%	4.56%	4.68%	4.89%	4.94%
Additional Debt Service Required	\$42	\$168	\$393	\$532	\$716	\$825

Guideline #3 Capacity

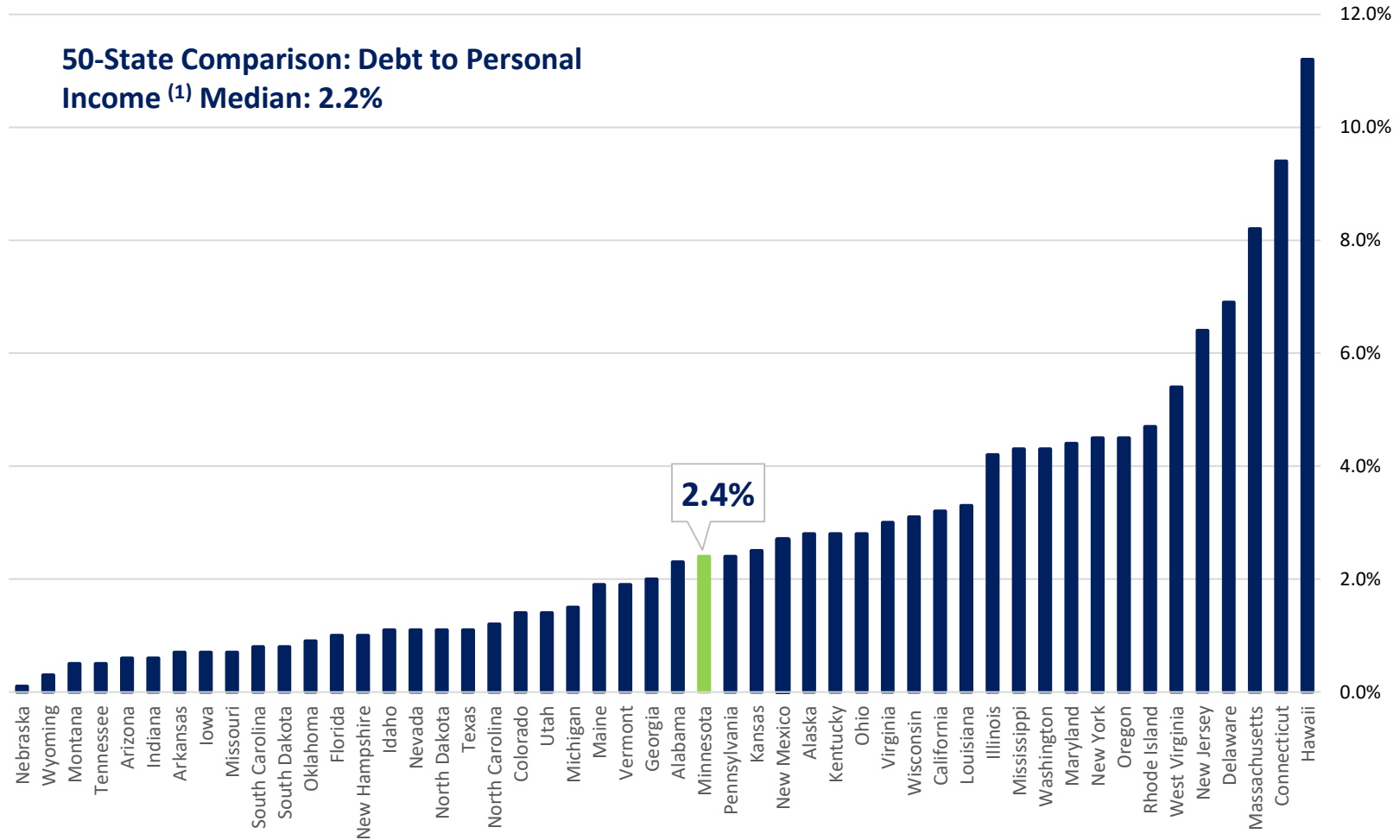
November 2023 Debt Capacity Report Maximum: Scheduled Debt Retirement (Guideline #3)

	Bonding Bills Assumed in Nov. 2023 Forecast (<i>millions</i>)	Maximum New Debt Within Guideline #3 (<i>millions</i>)	% Retired in 5 Years as of 6/30 (Maximum Scenario)	% Retired in 10 Years as of 6/30 (Maximum Scenario)
FY 2024	\$830	\$830	43.4%	75.6%
FY 2025	\$165	\$165	40.5%	71.0%
FY 2026	\$1,010	\$1,360	40.2%	70.0%
FY 2027	\$165	\$190	40.2%	70.0%
FY 2028	\$1,010	\$1,085	40.1%	70.0%
FY 2029	\$165	\$265	40.0%	70.1%

Next bond sale will be in Summer 2024 (FY2025) which is the next point in time the Guideline #3 metrics will change.

State-by-State Comparison

50-State Comparison: Debt to Personal Income ⁽¹⁾ Median: 2.2%



Source: Moody's State Debt Medians 2023, September 26, 2023.

Cancellation Report

Cancellations (M.S. §16A.642)

- Commissioner of MMB issues cancellation report on January 1 of each year
- Lists all bond and general fund capital appropriations previously enacted > 4 years with unspent and unencumbered balances
- The 2024 report showed amounts from 2019 bonding bill and earlier
 - Total of \$2.8 million in GO bonds and \$461K 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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