



State Debt Management Presentation

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What is a Bond?

Municipal bonds are debt securities issued by states, cities, counties and other governmental entities to finance capital projects, such as buildings, schools, highways or sewer systems, and to fund day-to-day obligations. The bond issuer agrees to pay interest and the return on the investment, the principal, to the bondholders who have loaned the issuer money for the project(s).

Characteristics of Bonds

- Issuer (state, municipality, special district)
- Purpose (transportation, building, land, utilities)
- Credit structure/source of repayment (general obligation, revenue, annual appropriation)
- Maturity structure (serial vs. term)
- Price (discount, par, premium)
- Tax status (taxable or tax-exempt)
- Interest rate (variable or fixed rate)
- Term (long or short-term)

Authority

- Authorization Determines Type of Bond Issue
 - State Constitution
 - Minnesota Statutes
 - Federal Regulations

What Projects Are Eligible For State G.O. Bond Financing?

Article XI, Section 5, of the Minnesota Constitution contains the authority for incurring public debt (G.O. bonds). Subdivision (a) states “to acquire and to better public lands and buildings and other public improvements of a capital nature, and to provide money to be appropriated or loaned to any agency or political subdivision of the state for such purposes.”

In other words...

- The bond financed project must be ***publicly owned***
- The project must constitute a ***capital expenditure***
- The project must be for a ***public purpose***
- The purpose of the bonds ***must be clearly set forth*** in the law

Other Purposes For Which G.O. Debt May Be Issued

- Repel invasion or suppress insurrection (1857)
- Borrow temporarily (1962)
- Refund outstanding bonds of the state or any of its agencies (1962)
- Establish and maintain highways (1924)
- Promote forestation and prevent and abate forest fires (1924)
- Construct, improve and operate airports and other air navigation facilities (1944)
- Develop the state's agricultural resources by extending credit on real estate (1922)
- 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 Important Provisions Pertaining to G.O. Bonds

- A full faith and credit obligation of the state – state will levy a tax if necessary to meet its debt service obligations
- Maximum maturity of 20 years
- Each bond issue must distinctly specify the purposes and maximum amount of proceeds authorized to be expended for such purposes
- A special and separate state bond fund is maintained for payment of debt service (principal and interest)

State Bond Issuers

- Commissioner of MMB
- Public Facilities Authority
- Housing Finance Agency
- Office of Higher Education
- MnSCU
- Agricultural and Economic Development Authority
- Rural Finance Authority
- Iron Range Resources and Rehabilitation
- Minnesota State Armory Building Commission
- Minnesota Higher Education Facilities Authority

Debt Policies/ Informal Practices

- Capital Investment Guidelines
- Tax compliance policies and procedures
- Continuing disclosure policy
- Refunding criteria
- Use of competitive vs. negotiated sales
- Use of an independent financial advisor
- Timing of bond sales

Capital Investment Guidelines

History

- State had five guidelines that were established in 1979
 - Debt limited to 3% of non-dedicated general fund revenues
 - Principal amount of general obligation bond debt should not exceed 2.5% of State personal income
 - Total amount of all State agency debt outstanding should not exceed 3.5% of State personal income
 - Total amount of all State should not exceed 5.0% of State personal income
 - 40/70 maturity test

Capital Investment Guidelines

In 2009, created new guidelines 1 and 2:

- Original guidelines did not include all the debt that rating agencies include in their calculations
- More in line with what rating agencies analyze
- More reflective of ability to pay
- Simple and straightforward and comparable to what other states use

Capital Investment Guidelines

Guideline #1: Total tax-supported principal outstanding⁽¹⁾ (issued) shall be 3.25% or less of total state personal income

- As of the November 2014 forecast, total principal outstanding was \$8.163 billion (3.00% of state personal income)
- Remaining principal capacity was \$686 million

Guideline #2: Total amount of tax-supported principal (both issued and authorized/unissued) for state general obligations⁽¹⁾, state moral obligations, equipment capital leases and real estate capital leases shall not exceed 6% of total state personal income

- As of Nov. 2014 forecast, total principal (both issued and authorized/unissued) was \$11.631 billion (4.27% of state personal income)
- Remaining principal capacity was \$4.707 billion.

Guideline #3: 40% of state G.O. bonds are to mature within 5 years and 70% within 10 years. The figures for June 30, 2014 were 40.5% and 71.0%.

(1) Includes all general fund supported obligations.

Capital Investment Guidelines
Summary of Outstanding Principal as of 11/30/2014
As of November, 2014 Economic Forecast

Tax-Supported Debt (Guideline #1)	Principal Outstanding	Authorized, Unissued	Total
All State General Obligation Debt	\$ 6,491,240,000	\$ 1,626,692,900	\$ 8,117,932,900
Certificates of Participation (SWIFT/Integrated Tax)	38,960,000	0	38,960,000
BCA Bemidji Lease Revenue Bonds	4,345,000	0	4,345,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	50,735,000	0	50,735,000
DHS Building	60,505,000	0	60,505,000
MHFA Supportive Housing	28,490,000	0	28,490,000
MHFA Housing Infrastructure 2012	28,360,000	0	28,360,000
MHFA Housing Infrastructure 2014	0	80,000,000	80,000,000
U of M:			
TCF Bank Stadium	104,385,000	0	104,385,000
Biosciences Facilities	191,835,000	0	191,835,000
State General Fund Appropriation Refunding Bonds	622,290,000	0	622,290,000
Professional Football Stadium Appropriation Bonds	462,065,000	0	462,065,000
Certificates of Participation - Legislative Office Facility	80,100,000	0	80,100,000
Pay for Performance Appropriation Bonds	<u>0</u>	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL - Tax-Supported Debt	\$ 8,163,310,000	\$ 1,716,692,900	\$ 9,880,002,900

Other Obligations (Guideline #2)

Tax-Supported Debt (issued and authorized but unissued)	\$ 9,880,002,900
MHFA Moral Obligation Debt ⁽¹⁾	1,199,730,000
MOHE Moral Obligation Debt	519,265,000
Equipment Leases	32,123,695
TOTAL - All Obligations	\$ 11,631,121,595

FY 2015 State Personal Income Estimate - IHS Forecast:	272,307,500,000
State Tax-Supported Debt as a Percent of Personal Income:	3.00%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	\$ 686,683,750
All Obligations as a Percent of Personal Income:	4.27%
Estimated maximum additional principal capacity for all obligations @ 6.0%	\$ 4,707,328,405

⁽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.



Types of State Issued Debt

GUIDELINE 1 (Principal Outstanding)*:

- State General Obligation Various Purpose
- State General Obligation Trunk Highway
- State Bonds supported by a General Fund Appropriation

* Does not include “self-supporting debt” – 911 revenue bonds and pension building revenue bonds

Other Types of State Obligations

GUIDELINE 1 (Principal Outstanding):

- State standing appropriations
 - University of Minnesota
 - MHFA
- Lease purchase financing for equipment
 - Certificates of Participation (COPs)
- Lease purchase financing for real estate
 - St. Paul Port Authority (Freeman and Andersen Buildings)
 - City of Bemidji (MN Bureau of Criminal Apprehension)
 - Legislative Office Facility

Other Types of State Obligations

GUIDELINE 2 (Bond Authorized, Issued and Unissued):

- All debt included in Guideline 1 plus:
- Lease purchase financing for equipment
- Moral obligation commitments
 - Minnesota Housing Finance Agency
 - Minnesota Office of Higher Education

Current Amount of Debt Outstanding (as of November 30, 2014) Guideline #1

- All general obligation debt - \$6.491 billion
- All appropriation debt (issued by state and others) - \$1.381 billion
- Leases for real estate - \$116 million
- Certificates of participation - \$119 million

Current Amount Outstanding (as of November 30, 2012) Guideline #2

- Equipment Leases - \$32.124 million
- Moral obligations
 - Minnesota Housing Finance Agency - \$1.200 billion
 - Minnesota Office of Higher Education - \$519 million

Bond Ratings

- Bonds may be rated by one or more of the three major credit rating agencies:
 - Fitch Ratings
 - Moody’s Investors Service, Inc.
 - Standard & Poor’s
- A bond rating is a measure of credit risk to investors
- “AAA” is the highest rating; “D” bonds are in default
- The higher the credit rating
 - the lower the risk and
 - the lower the interest rate

State of Minnesota Bond Ratings

- General Obligation Bonds
 - Fitch: “AA+”
 - Moody’s: “Aa1”
 - S&P: “AA+”
- State Appropriation Bonds
 - Fitch: “AA”
 - S&P: “AA”
- 911 Revenue Bonds
 - Fitch: “AA”
 - Moody’s: “Aa3”
 - S&P: “AA+”

Federal Considerations

- Tax Exemption (IRS)
- Arbitrage (IRS)
- Disclosure (SEC)
- Enforcement (IRS)

Future Debt Issuance Plans

- State General Obligation Bonds
- MHFA Housing Finance Infrastructure Bonds

Cancellation Report

- Statutory Requirement – MS 16A.642
- On January 2 of each odd-numbered year, MMB must report the cancellation of general fund and bond financed property authorized more than four years before January 1
- Project balances included in the report are canceled effective July 1 unless specifically reauthorized by Legislature

Cancellation Report

- Highlights from January 2, 2013 report:
 - Unencumbered (not under contract): \$12.6 million
 - \$_____ million in G.O. Trunk Highway Bonds
 - \$_____ million in general fund supported
- On MMB website:
<http://www.mn.gov/mmb/images/cancel-projects-15-REVISED3.pdf>

Questions

