



**MINNESOTA
Management
& Budget**

State Debt Management Practices
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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 building, schools, highways or sewer systems, and to fund day-to-day obligations. The 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).

Authority

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



State Bond Issuers

- Commissioner of MMB:
 - General Obligation Various Purpose
 - General Obligation Trunk Highway
 - Certain Revenue Bonds
- 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
- Tobacco Securitization Authority



Other Types of State Obligations

- State standing appropriations
 - University of Minnesota
 - MHFA
 - Certificates of Participation (COPs)
- Lease purchase financing for equipment
- Lease purchase financing for real estate
- School district credit enhancement program
- County and city credit enhancement program



5

Current Amount of State Obligations Outstanding (as of 2/16/12)

- All general obligation debt - \$5.43 billion
- 911 revenue bonds - \$164.67 million
- MEFA revenue bonds - \$980.04 million
- MHFA revenue bonds - \$2.29 billion
- MOHE revenue bonds - \$644.40 million
- MnSCU revenue bonds/guarantees - \$280.39 million
- MSABC bonds - \$3.04 million*
- RFA revenue bonds - \$34.910 million issued*
- PFA revenue bonds - \$1.19 billion
- MAEDB revenue bonds - \$455.102 million*
- IRRR revenue bonds - \$11.18 million

*As of September 27, 2011



6

Types of Bonds

- General obligation (backed by “full faith and credit of issuer”) or revenue bonds (backed by revenues from a specific project or source)
- Tax-exempt or taxable bonds
- Fixed rate or variable rate bonds
- Long-term or short-term bonds



7

What Projects Are Eligible For 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



8

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

- Repel invasion or suppress insurrection
- Borrow temporarily
- Refund outstanding bonds of the state or any of its agencies
- Establish and maintain highways
- Promote forestation and prevent and abate forest fires
- Construct, improve and operate airports and other air navigation facilities
- Develop the state's agricultural resources by extending credit on real estate
- Improve and rehabilitate railroad right-of-way and other rail facilities whether public or private, provided that bonds issued and unpaid shall not at any time exceed \$200 million

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 debt service

Capital Investment Guidelines

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

- As of November 2011 forecast, total principal outstanding was \$5.983 billion (2.45% of state personal income)
- Remaining principal capacity was \$1.96 billion

Guideline #2: Total amount of 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. 2011 forecast, total principal (both issued and authorized/unissued) was \$8.059 billion (4.02% of state personal income)
- Maximum principal capacity was \$3.173 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, 2012 were 40.0% and 70.1%. Estimates for June 30, 2011 are 35.6% and 67.9%.

(1) Includes all general fund supported obligations.



Informal Debt Policies/Practices

- Post issuance compliance policies and procedures
- Refunding criteria
- Use of competitive vs. negotiated sales
- Use of a financial advisor
- Timing of bond sales



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
- The higher the credit rating, the lower the interest rate



13

State of Minnesota Bond Ratings

- General Obligation Bonds
 - Fitch: "AA+"
 - Moody's: "Aa1"
 - S&P: "AA+"
- 911 Revenue Bonds
 - Fitch: "AA"
 - Moody's: "Aa3"
 - S&P: "AA+"



14

Federal Considerations

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



Questions

