



# Capital Investment Guidelines and Debt Capacity

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# 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

# Capital Investment Guideline #1

- **Guideline #1:** Total tax-supported principal outstanding (sold) shall be 3.25% or less of total state personal income. **Current: 2.41%**
- What debt is included?
  - State Issued Debt
    - General Obligation Various Purpose Bonds; General Obligation Trunk Highway Bonds; Appropriation Bonds
  - State-Supported Debt
    - State standing appropriations (University of Minnesota and Minnesota Housing Finance Agency); Lease-Purchase Financing for Real Estate
- “Self-supporting debt” is not included (for example, revenue bonds)

# 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. **Current: 3.82%**
- What debt is included?
  - All debt types included in Guideline #1, 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. **Current: 42.1% / 73.6%**
- Cost of bonding bills are realized more quickly

**Capital Investment Guidelines**  
**Summary of Outstanding Principal as of 11/30/2018**  
**As of November 2018 Budget and Economic Forecast**

<b>Tax-Supported Debt (Guideline #1)</b>	<b>Principal Outstanding</b>	<b>Authorized, Unissued</b>	<b>Total</b>
All State General Obligation Debt			
General Fund State General Obligation Debt	4,286,800,000	1,350,827,300	5,637,627,300
Trunk Highway Fund General Obligation Debt	2,018,675,000	1,386,664,900	3,405,339,900
Certificates of Participation (SWIFT/Integrated Tax)	8,540,000	0	8,540,000
BCA Bemidji Lease Revenue Bonds	2,350,000	0	2,350,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	35,075,000	0	35,075,000
DHS Building	42,025,000	0	42,025,000
MHFA Supportive Housing 2008	23,375,000	0	23,375,000
MHFA Housing Infrastructure 2012	24,455,000	0	24,455,000
MHFA Housing Infrastructure 2014	82,065,000	1,180,000	83,245,000
MHFA Housing Infrastructure 2015	11,755,000	2,730,000	14,485,000
MHFA Housing Infrastructure 2017	19,185,000	15,815,000	35,000,000
MHFA Housing Infrastructure 2018	0	80,000,000	80,000,000
U of M:			
TCF Bank Stadium	75,750,000	0	75,750,000
Biosciences Facilities	165,860,000	0	165,860,000
State General Fund Appropriation Refunding Bonds	493,195,000	0	493,195,000
Professional Football Stadium Appropriation Bonds	427,675,000	0	427,675,000
Certificates of Participation - Legislative Office Facility	74,225,000	0	74,225,000
Lewis and Clark Regional Water System Bonds	17,560,000	3,500,000	21,060,000
Pay for Performance Appropriation Bonds	0	10,000,000	10,000,000
<b>TOTAL - Tax-Supported Debt</b>	<b>\$ 7,808,565,000</b>	<b>\$ 2,850,717,200</b>	<b>\$ 10,659,282,200</b>

**Other Obligations (Guideline #2)**

Tax-Supported Debt (issued and authorized but unissued)		\$ 10,659,282,200
MHFA Moral Obligation Debt <sup>(1)</sup>		1,170,645,000
MOHE Moral Obligation Debt		501,400,000
Equipment Leases		36,006,284
Guaranteed Energy Savings Program (GESP) Equipment Leases		12,745,182
<b>TOTAL - All Obligations</b>		<b>\$ 12,380,078,666</b>
FY 2019 State Personal Income Estimate - IHS Forecast:	\$ 324,508,000,000	
State Tax-Supported Debt as a Percent of Personal Income:		2.41%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	\$ 2,737,945,000	
All Obligations as a Percent of Personal Income:		3.82%
Estimated maximum additional principal capacity for all obligations @ 6.0%	\$ 7,090,401,334	

<sup>(1)</sup> 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.

# 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 rolling average
    - \$755 million in even year / \$265 million in odd year (November 2018 Forecast)

# Managing State Debt Capacity

## November 2018 Debt Capacity Report Maximum

<i>Dollars in millions</i>	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<b>Bonding Bill Assumed in Nov '18 Forecast</b>	\$265	\$755	\$265	\$755	\$265	\$755
<b>Maximum New Debt Authorizations Within Debt Guidelines</b>	\$3,475	\$1,550	\$620	\$1,725	\$1,650	\$1,300
<b>Impact on Guideline #1</b>	2.41%	2.57%	3.03%	3.25%	3.25%	3.24%
<b>Impact on Guideline #2</b>	3.82%	4.51%	4.55%	4.34%	4.41%	4.42%
<b>Additional Debt Service Required</b>	\$0	\$69	\$265	\$325	\$369	\$417



# Thank you

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

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