Capital Investment Guidelines and Debt Capacity

Jennifer Hassemer | Assistant Commissioner for Debt Management

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Municipal Bond Market

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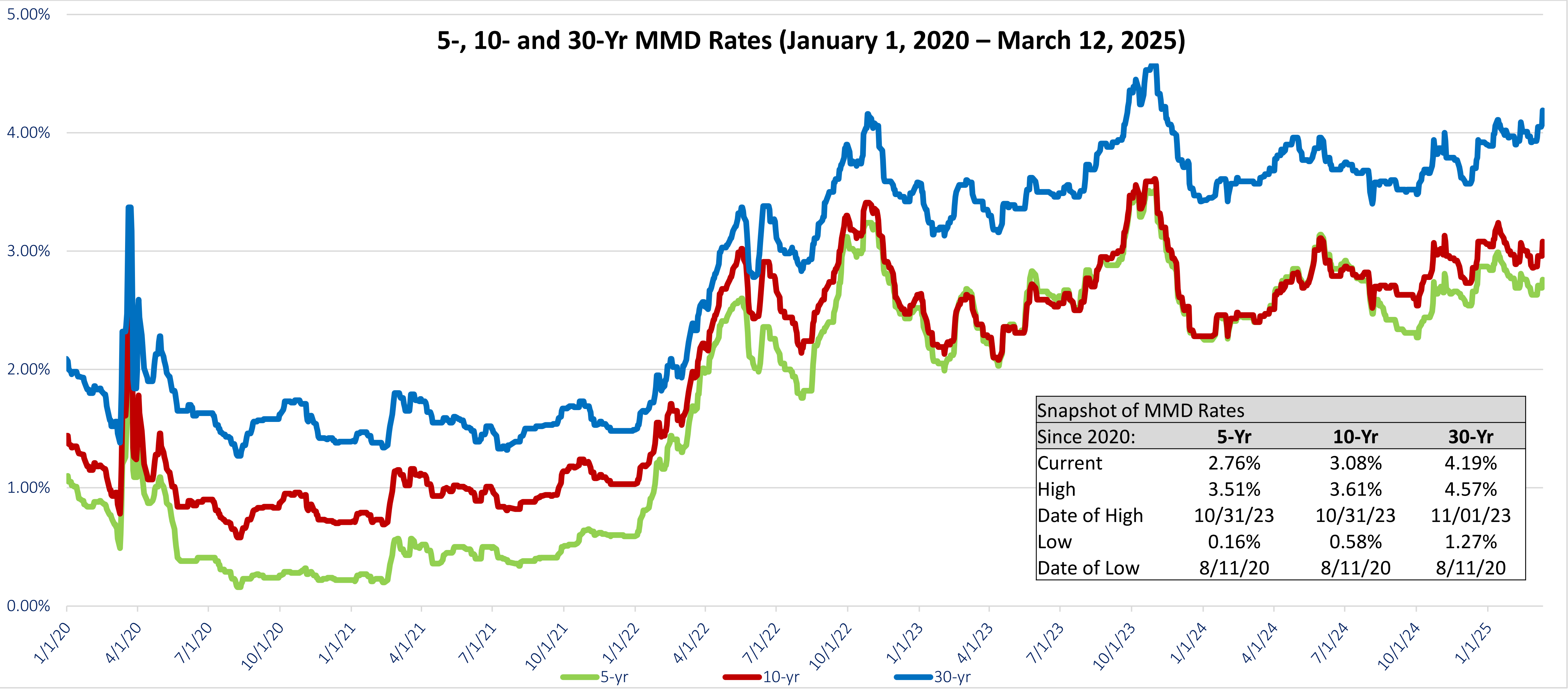
Municipal Bond Market Since 2020



Snapshot of MMD Rates			
Since 2020:	**5-Yr**	**10-Yr**	**30-Yr**
Current	2.76%	3.08%	4.19%
High	3.51%	3.61%	4.57%
Date of High	10/31/23	10/31/23	11/01/23
Low	0.16%	0.58%	1.27%
Date of Low	8/11/20	8/11/20	8/11/20

Historical MMD Rates

Source: TM3/LSEG

Capital Investment Guidelines

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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

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 <u>not</u> "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. **Feb. 2025: 1.90%**
- 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

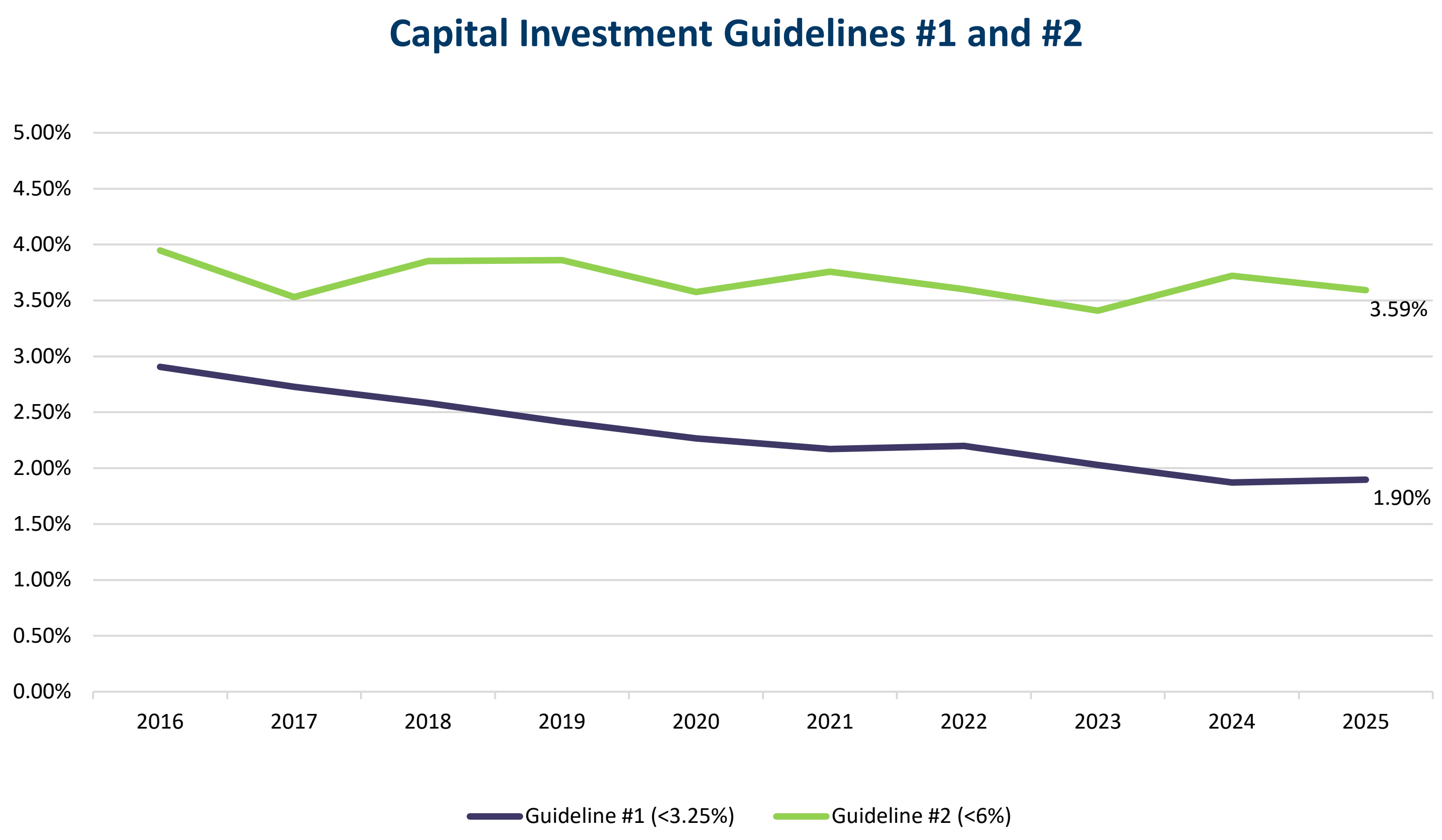
- **Guideline #2:** Total amount of tax-supported principal (both sold and authorized/unsold) for state general obligations, state moral obligations, equipment capital leases and real estate capital leases shall not exceed 6% of total state personal income. **Feb. 2025: 3.59%**

- 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. **Feb. 2025: 42.2% / 73.1%**
- 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



Debt Capacity

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Statement of Indebtedness

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

(as of 11/30/2024)	**Principal Outstanding**	**Authorized, Unissued**
General Obligation Bonds	$4,421,775,000	$1,216,426,906
Trunk Highway Bonds	$2,468,255,000	$1,233,755,076
Annual Appropriation Debt	$1,494,820,000	$50,000,000
Total	$8,384,850,000	$2,500,181,982

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
  - $700 million in 2025 / $1.01 billion in even years / $165 million in odd years (February 2025 Forecast)

Guideline #1 & #2 Capacity

February 2025 Debt Capacity Report Maximum: Personal Income (Guidelines #1 and #2)						
Dollars in millions	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**
Bonding Bills Assumed in Feb. 2025 Forecast	$700	$1,010	$165	$1,010	$165	$1,010
Maximum New Debt Authorizations Within Debt Guidelines #1 and #2	$3,545	$2,800	$2,500	$2,800	$2,500	$2,800
	FY26	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**
Impact on Guideline #1	1.99%	2.24%	2.58%	2.84%	2.97%	3.25%
Impact on Guideline #2	4.15%	4.50%	4.73%	4.88%	5.02%	5.40%
Additional Debt Service Required	$46	$179	$370	$609	$746	$949

Guideline #3 Capacity

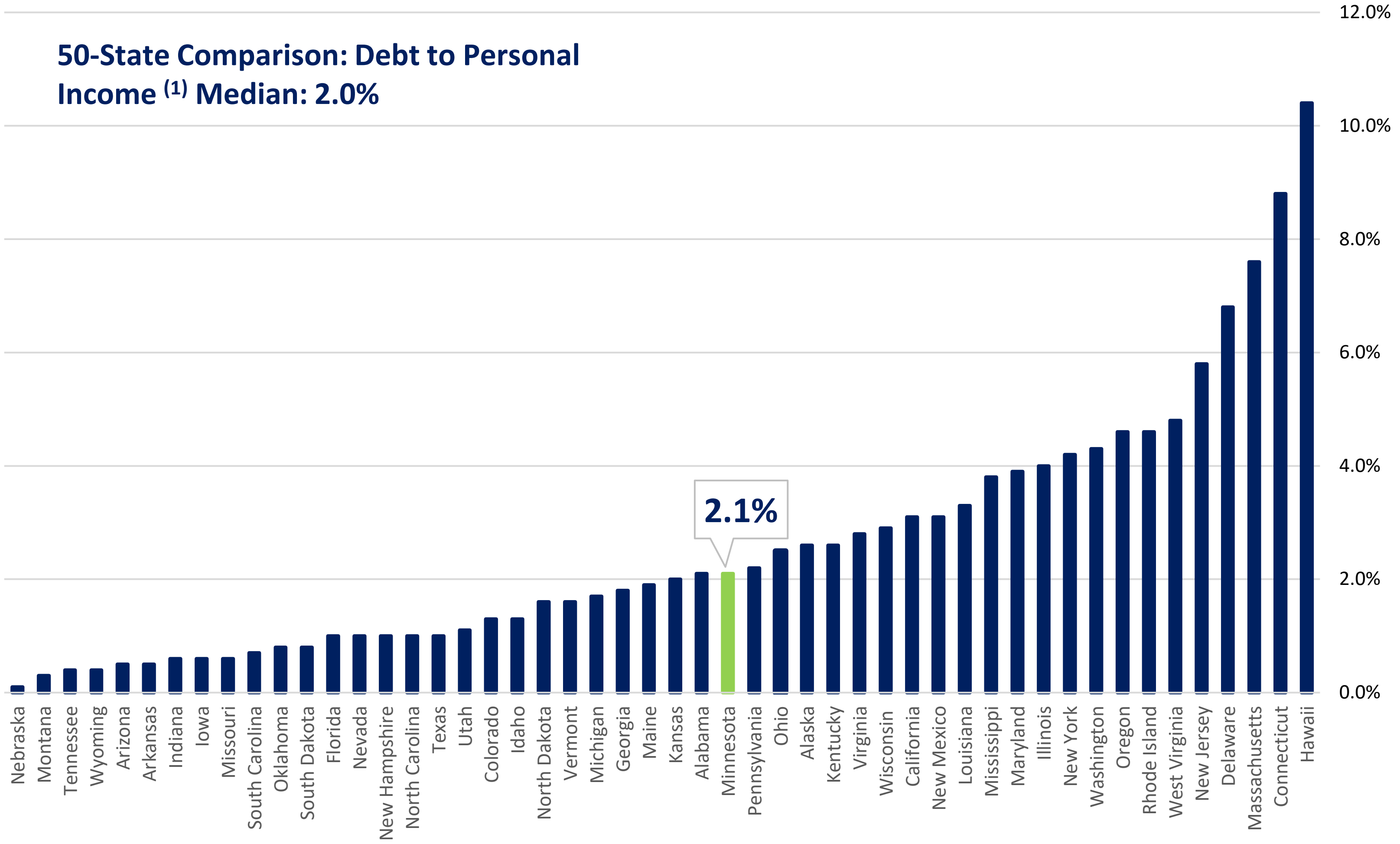
February 2025 Debt Capacity Report Maximum: Scheduled Debt Retirement (Guideline #3)				
	Bonding Bills Assumed in Feb. 2025 Forecast (*millions*)	Maximum New Debt Within Guideline #3 (*millions*)	% Retired in 5 Years as of 6/30 (Maximum Scenario)	% Retired in 10 Years as of 6/30 (Maximum Scenario)
FY 2025	$700	$700	42.2%	73.1%
FY 2026	$1,010	$1,010	41.7%	71.7%
FY 2027	$165	$165	40.8%	70.5%
FY 2028	$1,010	$1,460	40.3%	70.0%
FY 2029	$165	$265	40.3%	70.0%
FY 2030	$1,010	$1,490	40.0%	70.4%

Next bond sale will be in Summer 2025 (FY2026), which will flow into the Guideline #3 updates in November 2025.

Inputs into Guideline 3

- (1) Existing debt that's been sold plus (2) authorized/unissued debt that will be sold plus (3) future capital budgets
  - Starting point is debt the state is already obligated on
- Future debt is sensitive to:
  - Interest rate changes
  - Spending assumptions for authorized/unissued debt can shift
- General obligation debt is issued with level principal

State-by-State Comparison



Source: Moody's State Debt Medians 2024, October 07, 2024.

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Thank you

Jennifer Hassemer | Assistant Commissioner for Debt Management

jennifer.hassemer@state.mn.us

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

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