

## Debt Guidelines

### Objectives

The State's debt guidelines provide a transparent and forward-looking framework to help decision-makers balance ongoing capital investment needs with future fiscal capacity, in a way that preserves flexibility, affordability, and long-term financial strength. The guidelines are intended to allow for funding ongoing capital investments, support prudent financial management, and preserve budgetary flexibility across economic cycles. Consistent adherence to the guidelines demonstrates good governance and strengthens confidence among investors and rating agencies.

The State has maintained debt guidelines since 1979, and the guidelines are periodically reviewed and refreshed to ensure they remain aligned with best practices, rating agency methodologies, comparable peer states, and responsive to changes in the State's capital planning and financing environment.

Together, the guidelines serve as planning tools and guardrails to inform borrowing decisions over time. They do not prescribe a single level of borrowing in any given year.

### Guideline #1:

***Total outstanding principal for tax-supported debt shall not exceed 3.25% of state personal income.***

This guideline serves as a primary indicator of the State's overall debt capacity relative to its economic base. It is consistent with how credit rating agencies measure state debt, and it allows for comparison with other states. The established limit helps maintain Minnesota's profile of having a low-to-moderate debt burden.

For planning and monitoring purposes, the State may also evaluate performance against a lower benchmark within the guideline limit. A lower planning benchmark can set a more realistic and sustainable planning range, while also providing a buffer against unexpected economic volatility or issuance timing. It is not a borrowing target, but a reference point that supports early identification of upward pressure on the State's debt burden.

*The current planning benchmark is 2.5%.*

Key features of this guideline include:

- A comprehensive calculation that includes all tax-supported debt instruments, including general obligation bonds (various purpose and trunk highway), general fund-supported appropriation bonds, real estate leases, and standing general fund appropriations for debt issued by other entities
- A common and straightforward metric that is easy to calculate and compare across states
- A relatively stable measure that is less sensitive to interest rate or revenue fluctuations

### **Guideline #2:**

***Total authorized principal for tax-supported debt, including state moral obligations and equipment capital leases, shall not exceed 6% of state personal income.***

This guideline provides a comprehensive view of the State's legally authorized long-term obligations, recognizing commitments approved in law that have not been fully issued. By capturing both issued and authorized-but-unissued debt, this guideline supports forward-looking planning and transparency around future obligations. Its primary purpose is to evaluate how much borrowing the State is already committed to and its relationship to the state's resource base, regardless of issuance timing.

For planning and monitoring purposes, the State may also evaluate performance against a lower benchmark within the guideline limit. A lower benchmark, while not indicating a specific borrowing target, can serve as an early warning indicator of upward pressure on this metric. The current planning benchmark is 5.25%.

Key features of this guideline include:

- Inclusion of all major forms of tax-supported and moral obligation debt and equipment capital leases
- Recognition of the full legal commitment made at authorization, not just at issuance
- A straightforward and transparent metric that is easy to calculate and communicate

### **Guideline #3:**

***At least 40% of outstanding general obligation debt shall be scheduled to mature within five years, and at least 70% within ten years.***

This guideline reflects the State's long-standing conservative practice of paying down general obligation debt relatively quickly. It guides structuring decisions and promotes the timely recognition of debt service costs, supporting long-term budgetary flexibility and helping preserve future debt capacity. Rating agencies continue to value the rapid amortization, or repayment, of debt.

The state generally expects to maintain compliance with this guideline by issuing 20-year general obligation debt with level principal amortization. This measure will remain sensitive to large, one-time authorizations.

To account for temporary fluctuations in issuance patterns or one-time authorization timing, the State may evaluate performance against a modest floor below the guideline thresholds, with the expectation that the state will return to compliance with the thresholds within the planning horizon (six years). The current floors are 38% for the 5-year measure and 68% for the 10-year measure.

Key features of this guideline include:

- Consideration of all general obligation bonds, the majority of state debt, as other types of debt can require different payoff structures that could otherwise skew this measure
- The cost of bonding bills is recognized quickly
- Continued reliance on level principal payments, with allowance for higher principal payments in the early years to maintain compliance, when needed
- Flexibility to structure debt differently based on asset type, useful life, and to return to compliance

See the most recent [Debt Capacity Forecast](#) for the State's current position under these Debt Guidelines.