NEW ISSUE

RATINGS: Moody's: "Aa2"
S&P: "AA"
(See "Ratings" herein.)

This Official Statement has been prepared by the Minnesota Housing Finance Agency (the "Agency") to provide information about the Series Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, terms used with initial capital letters on this cover page have the meanings given in this Official Statement.

$12,690,000
MINNESOTA HOUSING FINANCE AGENCY
State Appropriation Bonds (Housing Infrastructure), 2017 Series A (Non-AMT)†

Dated Date: Date of Delivery **Due: As shown on inside front cover**

Tax Exemption	Interest on the Series Bonds is not includable in gross income for federal income tax purposes or taxable net income of individuals, estates and trusts for Minnesota income tax purposes. (For additional information, including further information on the application of federal and state alternative minimum tax provisions to the Series Bonds, see "Tax Exemption and Related Considerations.")
Redemption	The Agency may redeem all or a portion of the Series Bonds by optional redemption as described under "The Series Bonds."
Security	THE SERIES BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AGENCY PAYABLE SOLELY, AND EQUALLY AND RATABLY, FROM SPECIFIED TRANSFERS EXPECTED TO BE MADE BY THE STATE OF MINNESOTA (THE "STATE") PURSUANT TO LEGISLATION PROVIDING FOR THE APPROPRIATION OF THOSE TRANSFERS FROM THE GENERAL FUND OF THE STATE TO THE AGENCY (THE "HOUSING INFRASTRUCTURE STATE APPROPRIATIONS"), AND MONEYS AND SECURITIES HELD FROM TIME TO TIME IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (AS HEREIN DEFINED) AND PLEDGED TO THAT PAYMENT. THE AGENCY HAS NOT PLEDGED ANY OTHER REVENUES OR ASSETS, NOR THE FULL FAITH AND CREDIT OF THE AGENCY, TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES BONDS. THE AGENCY HAS NO TAXING POWER. THE SERIES BONDS ARE NOT INDEBTEDNESS OR ANOTHER OBLIGATION OF THE STATE AND ARE NOT PUBLIC DEBT OF THE STATE. THE STATE HAS NOT PLEDGED ITS FULL FAITH AND CREDIT AND TAXING POWER TO PAYMENT OF THE SERIES BONDS OR TO TRANSFERS TO THE AGENCY OF THE HOUSING INFRASTRUCTURE STATE APPROPRIATIONS. PURSUANT TO MINNESOTA LAW, THE MINNESOTA LEGISLATURE MAY REDUCE OR REPEAL THE HOUSING INFRASTRUCTURE STATE APPROPRIATIONS IN THEIR ENTIRETY. THE HOUSING INFRASTRUCTURE APPROPRIATIONS ARE ALSO SUBJECT TO REDUCTION THROUGH UNALLOTMENT. See "Nature of Obligation and Source of Payment."
Interest Payment Dates	February 1 and August 1, commencing February 1, 2018, and, for any Series Bonds to be redeemed, the redemption date.
Denominations	$5,000 or any multiple thereof.
Closing/Settlement	October 24, 2017 through the facilities of DTC in New York, New York.
Bond Counsel	Kutak Rock LLP.
Underwriters' Counsel	Cozen O'Connor.
Trustee	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
Book-Entry-Only System	The Depository Trust Company. See Appendix B hereto.

The Series Bonds are offered, when, as and if issued, subject to withdrawal or modification of the offer without notice and to the opinion of Kutak Rock LLP, Bond Counsel, as to the validity of, and tax exemption of interest on, the Series Bonds.

RBC Capital Markets **Piper Jaffray & Co.** **Wells Fargo Securities**

The date of this Official Statement is October 12, 2017.

† Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax. (See "Tax Exemption and Related Considerations" herein.)

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS

2017 Series A Bonds (Non-AMT)†

Due (August 1)	Principal Amount	Interest Rate	Price	Yield	CUSIP*
2018	$420,000	2.000%	100.740%	1.030%	60416SUG3
2019	430,000	3.000	103.247	1.140	60416SUH1
2020	445,000	4.000	107.461	1.250	60416SUJ7
2021	465,000	4.000	109.628	1.370	60416SUK4
2022	480,000	4.000	111.219	1.550	60416SUL2
2023	505,000	5.000	117.939	1.720	60416SUM0
2024	530,000	5.000	119.742	1.880	60416SUN8
2025	560,000	5.000	121.085	2.050	60416SUP3
2026	585,000	5.000	122.038	2.220	60416SUQ1
2027	615,000	5.000	123.106	2.340	60416SUR9
2028	645,000	4.000	112.650**	2.530	60416SUS7
2029	670,000	4.000	111.276**	2.680	60416SUT5
2030	700,000	4.000	109.742**	2.850	60416SUU2
2031	725,000	3.000	99.438	3.050	60416SUV0
2032	745,000	3.000	98.936	3.090	60416SUW8
2033	770,000	4.000	107.970**	3.050	60416SUX6
2034	805,000	4.000	107.444**	3.110	60416SUY4
2035	835,000	4.000	107.096**	3.150	60416SUZ1
2036	865,000	3.250	99.024	3.320	60416SVA5
2037	895,000	3.250	98.701	3.340	60416SVB3

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†Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax. (See "Tax Exemption and Related Considerations" herein.)

*CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included for the convenience of the owners of the Series Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series Bonds or as indicated above. A CUSIP number for a specific maturity may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

**Priced at the stated yield to the August 1, 2027 optional redemption date at par. (See "The Series Bonds – Optional Redemption" herein.).

None of the Minnesota Housing Finance Agency, the State of Minnesota or the Underwriters have authorized any dealer, broker, salesman or other person to give any information or representations, other than those contained in this Official Statement. Prospective investors must not rely on any other information or representations as being an offer to buy. No person may offer or sell Series Bonds in any jurisdiction in which it is unlawful for that person to make that offer, solicitation or sale. The information and expressions of opinion in this Official Statement may change without notice. Neither the delivery of the Official Statement nor any sale of the Series Bonds will, under any circumstances, imply that there has been no change in the affairs of the Agency since the date of this Official Statement.

This Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Agency, the State and the Series Bonds could cause actual results to differ materially from those contemplated in the forward-looking statements.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Series Bonds at a level above that which might otherwise prevail in the open market. This stabilizing, if commenced, may be discontinued.

NO FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY HAS RECOMMENDED THESE SECURITIES. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT
relating to
$12,690,000
MINNESOTA HOUSING FINANCE AGENCY
STATE APPROPRIATION BONDS (HOUSING INFRASTRUCTURE)
2017 SERIES A

This Official Statement (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), the State of Minnesota (the "State"), and the State Appropriation Bonds (Housing Infrastructure), 2017 Series A (the "Series Bonds"), in connection with the offering and sale of the Series Bonds by the Agency and for the information of all who may become initial Owners of the Series Bonds.

The Agency is issuing the Series Bonds pursuant to the Act, an Indenture of Trust, dated as of August 1, 2013, as supplemented by a Sixth Supplemental Indenture of Trust, to be dated as of October 1, 2017 (as so supplemented, and as amended and supplemented from time to time in accordance with its terms, the "Indenture"), each between the Agency and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Agency has issued ten series of its State Appropriation Bonds (Housing Infrastructure), 2013 Series A and 2013 Series B (the "Series 2013 Bonds"), its State Appropriation Bonds (Housing Infrastructure), 2014 Series A and 2014 Series B (the "Series 2014 Bonds"), its State Appropriation Bonds (Housing Infrastructure), 2015 Series A, 2015 Series B and 2015 Series C (the "Series 2015 Bonds") and its State Appropriation Bonds (Housing Infrastructure), 2016 Series A and 2016 Series B (the "Series 2016AB Bonds") and 2016 Series C (the "Series 2016C Bonds," and collectively with the Series 2013 Bonds, the Series 2014 Bonds, the Series 2015 Bonds and the Series 2016AB Bonds, the "Prior Series Bonds") under the Indenture in the original aggregate principal amount of $117,290,000, of which $84,870,000 are outstanding. The Series Bonds, the Prior Series Bonds and any additional bonds (the "Additional Bonds") issued pursuant to the Indenture are equally and ratably secured thereunder and are herein called the "Bonds."

The Indenture includes definitions of capitalized terms used in this Official Statement, some of which are reproduced in Appendix A. The summaries and references in this Official Statement to the Act and the Indenture and other documents are only outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references in this Official Statement to the Act and the Indenture are qualified in their entirety by reference to the Act and Indenture, copies of which are available from the Agency, and all references to the Series Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto contained in the Indenture.

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota, established in 1971 pursuant to the Act. Section 462A.37 of the Act authorizes the Agency to issue its bonds to fund loans ("Housing Infrastructure Loans") to pay for all or a portion of the costs of the construction, acquisition and rehabilitation of supportive housing for individuals and families who are without a permanent residence with a preference to be given for developments serving certain individuals and families, all or a portion of the costs of the acquisition and rehabilitation of abandoned or foreclosed property to be used for affordable rental housing and the construction of rental housing on that property where the existing structures will be demolished or removed, that portion of the costs of the acquisition of abandoned or foreclosed property that is attributable to the land to be leased by community land trusts to low and moderate income homebuyers, all or a portion of the costs of the acquisition and rehabilitation or refinancing of federally assisted rental housing, including refunding outstanding bonds issued by the Agency or another governmental unit and all or a portion of the costs of the construction, acquisition, and rehabilitation of supportive housing for girls and women to provide them protection from and the means to escape exploitation and trafficking.

The Agency is issuing the Series Bonds to provide money to fund Housing Infrastructure Loans and to pay costs of issuance of the Series Bonds. (See "Estimated Sources and Uses of Funds.") For a description of the developments expected to be financed with proceeds of the Series Bonds, see "The Developments" herein. The Series Bonds are secured, on parity with the Prior Series Bonds and Additional Bonds, if any, hereafter issued under the Indenture, by a pledge made by the Agency under the Indenture of all amounts appropriated to the Agency by the State pursuant to Section 462A.37 of the Act (the "Housing Infrastructure State Appropriations"). Section 462A.37 of the Act provides that amounts necessary to pay principal of and premium, if any, and interest on housing infrastructure bonds issued pursuant to Section 462A.37 of the Act, and the fees, charges and expenses related thereto, are appropriated annually from the State general fund (the "General Fund") to the Commissioner of Management and Budget for transfer to the Agency. The amount appropriated with respect to the Series 2013 Bonds and the Series 2014 Bonds, collectively, will not exceed $2,200,000 annually for transfer to the Agency through July 15, 2035. The amount appropriated with respect to Series 2015 Bonds, the Series 2016AB Bonds and Additional Bonds (including the Series Bonds), collectively, in an aggregate principal amount up to $95,000,000, will not exceed $6,400,000 annually for transfer to the Agency through July 15, 2037. The amount appropriated with respect to the Series 2016C Bonds and Additional Bonds not included in the principal amount described in the preceding sentence, collectively, in an aggregate principal amount up to $15,000,000, will not exceed $800,000 annually for transfer to the Agency through July 15, 2038. The amount appropriated with respect to Additional Bonds not included in the principal amounts described in the preceding sentences, in an aggregate principal amount up to $35,000,000, will not exceed $2,800,000 annually for transfer to the Agency beginning July 15, 2018 through July 15, 2039. Upon the issuance of the Series Bonds, there will be $45,020,000 of authorized but unissued debt supported by the Housing Infrastructure State Appropriations.

The Series Bonds are special, limited obligations of the Agency. The Series Bonds are not general obligations of the Agency and the Agency has not pledged its general funds to the payment of the Series Bonds or the interest thereon. The Agency will pay principal of, premium, if any, and interest on the Series Bonds solely from the Trust Estate established pursuant to the Indenture, consisting principally of the Housing Infrastructure State Appropriations. In no event will the Agency pay principal of, premium, if any, or interest on the Series Bonds from the general revenues or assets of the Agency. The Act provides that the Bonds are not public debt of the State. The State has not pledged its full faith and credit and taxing powers to payment of the Series Bonds or to payment of the Housing Infrastructure State Appropriations. Pursuant to Minnesota law, the Minnesota Legislature (the "Legislature") may reduce or repeal the Housing Infrastructure State Appropriations in their entirety. The Housing Infrastructure State Appropriations are also subject to unallotment under Minnesota Statutes, Section 16A.152. See "Nature of Obligation and Source of Payment" and "Appendix A – Summary of Certain Provisions of the Indenture."

THE AGENCY

Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce that housing without assistance and resulted in a failure to provide sufficient long term mortgage financing for that housing.

Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed and qualified. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below.

John DeCramer, Chairman — Term expires January 2020, Marshall, Minnesota – Magnetics Engineer

The Honorable *Rebecca Otto — Ex officio*, St. Paul, Minnesota – State Auditor

Damaris Hollingsworth, Member – Term expires January, 2018, Minneapolis, Minnesota – Architect

Joseph Johnson III, Vice Chairman — Term expires January 2021, Duluth, Minnesota – Banker

Craig Klausing, Member – Term expires January 2019, Roseville, Minnesota – Attorney

Stephanie Klinzing, Member – Term expires January 2019, Elk River, Minnesota – Writer and Publisher

Terri Thao, Member — Term expires January 2020, St. Paul, Minnesota – Program Director

Staff

The staff of the Agency presently consists of approximately 250 persons, including professional staff members and contractors who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides certain legal services to the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint permanent and temporary employees as the Commissioner deems necessary subject to the approval of the Commissioner of Management and Budget.

The principal officers and staff related to the programs associated with the developments to be funded with Housing Infrastructure Loans are as follows:

Mary Tingerthal — Commissioner. Ms. Tingerthal was appointed Commissioner effective February 2011. Before her appointment, Ms. Tingerthal was President of Capital Markets Companies for the Housing Partnership Network where she coordinated the work of the Housing Partnership Fund, which provides acquisition and predevelopment financing; Housing Partnership Ventures, which serves as the Network's investment vehicle; the Charter School Financing Partnership, a new conduit for charter school loans; and the Network's housing counseling intermediary and neighborhood stabilization programs. In 2008, she was instrumental in establishing the National Community Stabilization Trust -- a nationwide company dedicated to helping local organizations put vacant and foreclosed properties back into productive reuse. Prior to that, Ms. Tingerthal held senior management positions with the National Equity Fund, GMAC Residential Funding, the City of Saint Paul, and the Community Reinvestment Fund. She worked for the Agency beginning in the late 1970s when she spent 10 years working with the Agency's home improvement division. Ms. Tingerthal holds a Master's Degree in Business from Stanford Graduate School of Business, and a Bachelor of Arts Degree from the University of Minnesota. She serves as the vice chair of the Consumer Advisory Council to the Federal Reserve Board and serves on the Boards of the National Housing Trust, the National Community Investment Fund, and the National Council of State Housing Agencies.

Barbara Sporlein — Deputy Commissioner, appointed effective November 2011. Her primary responsibilities are talent management, agency-wide planning, inter-agency collaboration, operations, Indian Housing, and credit risk management. Prior to this position, Ms. Sporlein was the Director of Planning for the City of Minneapolis between 2004 and 2011. As Planning Director she was responsible for the City's long range planning, transportation planning, development consultation and review, heritage preservation, environmental review, public art program, and zoning administration and enforcement. Prior to that position, Ms. Sporlein served as the Deputy Director of the Saint Paul Public Housing Agency between 1994 and 2004, and as a City Planner for the City of Saint Paul from 1990 to 1994. Ms. Sporlein has a Bachelor of Science Degree in Geography from the University of Wisconsin-Madison, a Master of Planning Degree from the Humphrey School of Public Affairs at the University of Minnesota, and a Certificate in Advanced Studies in Public Administration from Hamline University. Ms. Sporlein serves on the Board of Directors for the Daniel Rose Center for Public Leadership, and is a

member of the Citizens League, the Urban Land Institute, the Minnesota Chapter of National Association of Housing and Redevelopment Officials, and the American Planning Association. Ms. Sporlein is a Certified Public Housing Manager and Housing Finance Professional.

Kevin Carpenter — Chief Financial Officer, appointed effective March 2016. In this position, Mr. Carpenter leads the finance and accounting teams of the Agency and provides strategic direction regarding the organization's financial resources. Prior to this position, Mr. Carpenter was the Chief Financial Officer at the City of Minneapolis from May 2011 to November 2015, and also had significant tenure in various senior financial and operating positions at RBC Capital Markets, LLC. He previously was an investment banker at RBC Capital Markets, LLC and at Lehman Brothers. Mr. Carpenter earned a Master's Degree in Business Administration from Harvard University Business School and a Bachelor of Arts degree in Government from Dartmouth College.

Terrance Schwartz — Director of Finance appointed effective June 2015. Mr. Schwartz is also the Director of Operations since August 2011. Mr. Schwartz was Controller for the Agency from September 2007 to June 2015. Previous to that he held various accounting positions of increasing responsibility with the Agency. Mr. Schwartz served four years in the United States Marine Corps. He holds a Bachelor of Science Degree with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota.

Thomas O'Hern — General Counsel, appointed effective November 2015. Prior to becoming General Counsel, Mr. O'Hern was employed by the Minnesota Attorney General's Office for 32 years as an Assistant Attorney General representing many state agencies and boards. Mr. O'Hern has represented the Agency since 2003. Mr. O'Hern earned his law degree from American University and holds a Bachelor of Arts degree from George Washington University in Washington D.C.

Wes Butler — Assistant Commissioner, Multifamily, appointed effective January 2015. Previously, Mr. Butler was Manager of Residential Finance for the City of Minneapolis Department of Community Planning and Economic Development from 2008 to 2014 where he managed a staff responsible for the redevelopment of over 6,000 units of housing, and managed an annual budget in excess of $14 million per year. Prior to serving in that position, Mr. Butler held positions as development finance analyst for the City of Minneapolis and as deputy director for the Washington County Housing and Redevelopment Authority. Mr. Butler holds a Master's degree in Business Administration from the University of St. Thomas and a Bachelor of Arts degree in Geography and Urban Planning from the University of Colorado.

The Agency's offices are located at 400 Wabasha Street North, Saint Paul, Minnesota 55102, and its general telephone number is (651) 296-7608. The Agency's Investor Relations Representative may be reached at the Agency's general telephone number. The Agency's website address is http://www.mnhousing.gov. No portion of the Agency's website is incorporated into this Official Statement.

THE SERIES BONDS

General

The Series Bonds will be fully registered bonds issued in the denominations of $5,000 or any integral multiple thereof of single maturities. The Series Bonds will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for each series of the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, serves as Trustee under the Indenture. Interest on the Series Bonds will be paid by moneys wired by the Trustee to DTC, or its nominee, as registered owner of the Series Bonds, which interest is to be redistributed by DTC. Principal of the Series Bonds will be paid at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. (See "Appendix B — Book-Entry-Only System.")

For every exchange or transfer of Series Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to that exchange or transfer. The Series Bonds mature on the dates and in the amounts set forth on the inside front cover hereof, subject to prior redemption as hereinafter described.

The Series Bonds will bear interest from their dated date, payable semiannually on February 1 and August 1 of each year, commencing February 1, 2018, and, for any Series Bonds then to be redeemed, on any redemption date, at the respective annual rates set forth on the inside front cover hereof until payment of the principal or redemption price of the Series Bonds. Interest on the Series Bonds is calculated on the basis of a 360-day year composed of twelve 30-day months and will be payable to the Owners of record in the bond registration books maintained by the Trustee as of the Record Date.

Optional Redemption

The Agency may redeem Series Bonds maturing on or after August 1, 2028, at its option, in whole or in part, on any date on or after August 1, 2027, from the stated maturities and in the principal amounts selected by the Agency, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date of redemption, without premium.

General Redemption Provisions

The Trustee must mail notice of redemption, first-class postage prepaid, not less than 30 days before the Redemption Date, to each Owner of Series Bonds to be redeemed; but neither the failure to mail notice to the Owner of any particular Series Bond nor any defect in any notice so mailed will affect the validity of the proceedings for redemption of any Series Bond not affected by that failure or defect.

If notice of redemption has been given and funds sufficient to pay the redemption price are on deposit with the Trustee, on the Redemption Date the Series Bonds to be redeemed become due and payable at the Redemption Price specified and on and after that date (unless the Agency defaults in the payment of the Redemption Price) those Bonds will cease to bear interest.

NATURE OF OBLIGATION AND SOURCE OF PAYMENT

General

The Bonds (including the Series Bonds) are special, limited obligations of the Agency. The Agency expects that the Housing Infrastructure State Appropriations will be transferred on July 15 of each year from the General Fund of the State to the Agency by the Commissioner of Management and Budget pursuant to Section 462A.37 of the Act and has pledged the Housing Infrastructure State Appropriations pursuant to the Indenture to the payment of the Bonds. The Bonds are not general obligations of the Agency and the Agency has not pledged its general revenues or assets to the payment of the Bonds or the interest thereon. The Agency will pay principal of, premium, if any, and interest on the Bonds solely from the Trust Estate established pursuant to the Indenture, consisting principally of the Housing Infrastructure State Appropriations. In no event will the Agency make payments with respect to the Bonds from the general revenues or assets of the Agency, which include appropriations from the State other than the Housing Infrastructure State Appropriations pursuant to Section 462A.37 of the Act. The Bonds will not constitute indebtedness or another obligation of the State and are not public debt of the State. The State will not pledge its full faith, credit and taxing power to payment of the Bonds or the interest thereon or to annual transfers of Housing Infrastructure State Appropriations to the Agency. The Agency does not expect that any revenues from the Housing Infrastructure Loans will be available to pay debt service on the Bonds, and has not pledged payments on the Housing Infrastructure Loans, if any, to pay principal of or interest on the Bonds.

In the opinion of Bond Counsel, Housing Infrastructure State Appropriations from the General Fund to the Agency do not require further State or other approval except as expressly provided in the Act. See "—The Housing Infrastructure State Appropriations" and "—Certain Risks With Respect to Payment of Housing Infrastructure State Appropriations" hereunder.

The Indenture provides that, as received each year, all Housing Infrastructure State Appropriations paid by the State to the Agency will be remitted by the Agency to the Trustee for deposit into the Bond Fund held under the Indenture and that amounts in the Bond Fund are irrevocably pledged to and must be used for the payment of principal of and premium (if any) and interest on the Bonds, as and when principal, premium and interest become due and payable. The Trustee may also use moneys in the Bond Fund in excess of the amount necessary to pay the principal of and interest on Outstanding Bonds in the current Fiscal Year to pay fees, charges and expenses with respect to the Bonds, except as otherwise required under the Indenture upon occurrence of Event of Default and with respect to advances, counsel fees and other expenses reasonably made or incurred by the Trustee (see "Appendix A — Summary of Certain Provisions of the Indenture — Application of Revenues and Other Moneys After Event of Default" and "—Compensation of Trustee"). Upon written direction of the Agency, the Trustee may use moneys in the Bond Fund to purchase Bonds maturing or subject to redemption on a sinking fund payment date on either of the next two interest payment dates after that purchase, provided that the Bonds are delivered to the Trustee for cancellation upon purchase.

The Indenture further provides that proceeds of the Series Bonds will be deposited by the Agency in the Program Fund (the "Program Fund"). The money in the Program Fund will be held in trust by the Trustee and applied to the funding of certain Housing Infrastructure Loans and payment of costs of issuance of the Series Bonds. The Trustee is to create specific accounts within the Program Fund, upon receipt of an Agency Certificate, to fund specific Housing Infrastructure Loans. See "Appendix A — Summary of Certain Provisions of the Indenture."

The Housing Infrastructure State Appropriations

Section 462A.37 of the Act provides that the Agency may issue up to $175 million of housing infrastructure bonds in one or more series to which Housing Infrastructure State Appropriations may be pledged. To qualify as housing infrastructure bonds, the Bonds must be "qualified 501(c)(3) bonds" (within the meaning of Section 145(a) of the Internal Revenue Code of 1986, as amended (the "Code")), finance qualified residential rental projects within the meaning of Section 142(d) of the Code or not be "private activity bonds" (within the meaning of Section 141(a) of the Code). The Bonds may be issued for the purpose of making loans, on terms and conditions the Agency deems appropriate, to finance all or a portion of the costs of the construction, acquisition and rehabilitation of supportive housing for individuals and families who are without a permanent residence with a preference to be given for developments serving certain individuals and families, all or a portion of the costs of the acquisition and rehabilitation of abandoned or foreclosed property to be used for affordable rental housing and the construction of rental housing on that property where the existing structures will be demolished or removed, that portion of the costs of the acquisition of abandoned or foreclosed property that is attributable to the land to be leased by community land trusts to low and moderate income homebuyers, and all or a portion of the costs of the acquisition and rehabilitation or refinancing of federally assisted rental housing, including refunding outstanding bonds issued by the Agency or another governmental unit, and for other authorized purposes under the Act. For a description of the developments expected to be financed with proceeds of the Series Bonds, see "The Developments" herein.

Section 462A.37 of the Act requires the Agency to annually certify to the Commissioner of Management and Budget the actual amount of principal of and premium, if any, and interest on each series of Bonds issued pursuant to the Act payable in that year and the fees, charges and expenses related to the Bonds. The amount so certified with respect to the Series 2013 Bonds and the Series 2014 Bonds, collectively, may not exceed $2,200,000 annually for appropriation on July 15 of each year until July 15, 2035. The amount so certified with respect to the Series 2015 Bonds, the Series 2016AB Bonds and Additional Bonds (including the Series Bonds), collectively, in an aggregate principal amount up to $95,000,000, may not exceed $6,400,000 annually, for appropriation on July 15 of each year until July 15, 2037. The amount so certified with respect to the Series 2016C Bonds and Additional Bonds not included in the principal amount described in the preceding sentence, collectively, in an aggregate principal amount up to $15,000,000, may not exceed $800,000 annually for appropriation on July 15 of each year until July 15, 2038. The amount so certified with respect to Additional Bonds not included in the principal amounts described in the preceding sentences, in an aggregate principal amount up to $35,000,000, will not exceed $2,800,000 annually for appropriation on July 15 of each year beginning July 15, 2018 until July 15, 2039. Appropriations will be made from the General Fund to fund transfers by the Commissioner of Management and Budget to the Agency to pay debt service on the Outstanding Bonds and related fees, charges and expenses. The amounts appropriated to the Agency pursuant to Section 462A.37 of the Act are the "Housing Infrastructure State Appropriations."

Under the Indenture, the Agency has covenanted to annually certify to the Commissioner of Management and Budget the actual amount of principal of and premium, if any, and interest on each series of Bonds issued pursuant to the Act payable in that year and the fees, charges and expenses related to the Bonds.

The Act contains no provision establishing any right of Owners of Outstanding Bonds to require the Commissioner of Management and Budget to make the specified Housing Infrastructure State Appropriations or limiting the ability of the State to amend or repeal Section 462A.37 of the Act or, by other legislative, executive or judicial action, to adversely affect the amount or timely transfer of Housing Infrastructure State Appropriations.

Certain Risks With Respect to Payment of Housing Infrastructure State Appropriations

Section 462A.37 of the Act provides for annual Housing Infrastructure State Appropriations of funds from the General Fund to the Agency for payment of Outstanding Bonds, conditioned upon certification by the Agency to the Commissioner of Management and Budget of the actual amount of annual debt service on each series of Outstanding Bonds. The Housing Infrastructure State Appropriations constitute an appropriation for future years that does not require any further action by the Legislature. However, pursuant to Minnesota law, the Legislature may reduce or repeal a standing appropriation in its entirety. The Legislature is prohibited from acting to bind any future Legislature. **Any of: (i) a legislative reduction or repeal of the Housing Infrastructure State Appropriations established by Section 462A.37 of the Act; (ii) an unallotment of, or other executive action affecting, the Housing Infrastructure State Appropriations established by Section 462A.37 of the Act; or (iii) a partial government shutdown affecting the practical ability of the Commissioner of Management and Budget to make transfers of Housing Infrastructure State Appropriations to the Agency could prevent the anticipated full and timely payment of interest and principal then due on the Series Bonds. In addition, prospective secondary market purchaser concerns that such an event might occur could materially and adversely affect the market price of the Outstanding Series Bonds even if the event does not in fact occur.**

Reduction or Repeal of Appropriation.

Housing Infrastructure State Appropriations. The Housing Infrastructure State Appropriations constitute a standing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, as provided by Minnesota law, the Legislature may reduce or repeal a standing appropriation entirely. The State cannot give any assurance that the Legislature will not reduce or repeal the Housing Infrastructure State Appropriations.

Appropriations Other Than Housing Infrastructure State Appropriations. Certain State appropriations (other than the Housing Infrastructure State Appropriations) for limited payment obligations of the State are not standing appropriations and, thus, require action by the Legislature on an annual or biennial basis. The State's obligation to make payments on these State or other obligations is not a general or moral obligation indebtedness of the State; rather the State is obligated to make payments only to the extent moneys are appropriated from time to time for that purpose. In the past, the Legislature has failed to make appropriations as necessary to pay in full debt service on State or other obligations, including in 1980 and 1981, when an appropriation to the Minnesota State Zoological Board (the "Zoo Board") of net revenues of a zoo ride facility were insufficient to allow the Zoo Board to make payments pursuant to an installment purchase agreement, which payments had been assigned to holders of certificates of participation in that agreement. In 1989, the Legislature declined to appropriate funds to St. Cloud State University as necessary to make certain payments under an energy services agreement, which payments had been assigned to an indenture trustee as security for the payment of principal of and interest on industrial development revenue bonds issued by the City of St. Cloud, Minnesota. As previously stated, the limited payments obligations of the State described in this paragraph were not standing appropriations and, unlike the Series Bonds, required affirmative action by the Legislature on an annual or biennial basis for State payments to be made in respect of said obligations.

Unallotment. The Housing Infrastructure State Appropriations are subject to executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152. Article XI, Section 6 of the Minnesota Constitution requires a balanced budget for the State. Pursuant to that requirement, Minnesota law requires the Governor to submit a proposed State budget to the Legislature by the end of January of each odd-numbered year for that year and the ensuing even-numbered year (those years together, the "biennium"). On July 1 of each odd-numbered year, the Commissioner of Management and Budget transfers to the Budget Reserve Account within the General Fund (the "Budget Reserve") any amounts specifically appropriated by law to the Budget Reserve. Pursuant to Minnesota Statutes, Section 16A.152, if the Commissioner of Management and Budget determines that probable receipts for the General Fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner of Management and Budget, with the approval of the Governor, may use amounts in the Budget Reserve to balance the State budget. Section 16A.152 further permits the Commissioner of Management and Budget, with the approval of the Governor, to "unallot" funds as follows:

> (a) An additional deficit shall, with the approval of the Governor, and after consulting the Legislative Advisory Commission, be made up by reducing unexpended allotments of any prior appropriation or transfer. Notwithstanding any other law to the contrary, the Commissioner of Management and Budget is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.
>
> (b) If the Commissioner of Management and Budget determines that probable receipts for any other fund, appropriation, or item will be less than anticipated, and that the amount available for the remainder of the term of the appropriation or for any allotment period will be less than needed, the Commissioner of Management and Budget shall notify the agency concerned and then reduce the amount allotted or to be allotted so as to prevent a deficit.
>
> (c) In reducing allotments, the Commissioner of Management and Budget may consider other sources of revenue available to recipients of State appropriations and may apply allotment reductions based on all sources of revenue available.

During and after the legislative sessions, revenues are updated to reflect legislative actions that have a direct impact on State revenues and changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner of Management and Budget discovers that probable revenues will be less than anticipated, the Commissioner, with the approval of the Governor, is required to reduce allotments as necessary to balance expenditures and revenues forecast for the then current biennium. The Governor also has the authority to request legislative actions to provide additional sources of revenue, but those requests do not relieve the Commissioner of Management and Budget of his obligation to reduce allotments to State agencies.

The executive branch has imposed unallotments in prior fiscal years, but not with respect to the payment of debt service. Over the past thirty years, the unallotment procedure has been used as follows: $195 million of unallotments in 1980; in 1981 local government aid payments were unallotted in November and December but were reallotted and paid by February 26, 1982; $109 million of unallotments in 1986; $281 million of unallotments in 2003; $271 million of unallotments in 2008; and $2.68 billion of unallotments in 2009. The 2009 unallotment was unique in that it resulted from the passage of appropriation bills for the fiscal biennium, but the then-Governor vetoed a tax bill that would have balanced the biennial budget by raising revenues and shifting payments. In litigation challenging the 2009 unallotments, the Minnesota Supreme Court concluded that unallotment could not be used to balance the budget for an entire biennium when balanced spending and revenue has not been agreed upon by the legislature and the Governor. The legislature and Governor subsequently agreed to a balanced budget for the biennium. While appropriations from the General Fund for payment of debt service have not previously been unallotted, the State cannot give any assurance that unallotment of the Housing Infrastructure State Appropriations will not be imposed in any future year.

Other Risks. There can be no assurance that other events outside the control of the Commissioner of Management and Budget, such as a temporary State government shutdown, will not affect the ability of the Commissioner of Management and Budget to make timely payments of principal of and interest on the Series Bonds.

The Bonds are not general obligations of the Agency and the Agency has not pledged its general funds or assets to the payment of the Bonds or the interest thereon. The Agency will pay principal of, premium, if any, and interest on the Bonds solely from the Trust Estate established pursuant to the Indenture, consisting principally of Housing Infrastructure State Appropriations. In no event will the Agency make payments with respect to the Bonds from its general revenues, which include appropriations from the State other than the Housing Infrastructure State Appropriations pursuant to Section 462A.37 of the Act. The Bonds will not constitute indebtedness or another obligation of the State and are not public debt of the State. The State will not pledge its full faith, credit and taxing power to payment of the Bonds or the interest thereon or to the annual transfers of Housing Infrastructure State Appropriations to the Agency.

Additional Bonds

In addition to the Series Bonds described herein, the Agency may in its discretion issue up to $45,020,000 in principal amount of Additional Bonds to provide funds to make additional Housing Infrastructure Loans and pay costs of issuance of such Additional Bonds and other purposes authorized by Section 462A.37 of the Act. Any Additional Bonds are to be authorized by a resolution of the Agency and prescribed in a supplemental indenture (a "Supplemental Indenture") executed by the Agency and the Trustee and which, when so issued, authorized and prescribed, will be secured by the Indenture and the Trust Estate, consisting primarily of Housing Infrastructure State Appropriations, on a parity with the Bonds then Outstanding under the Indenture; provided that no Additional Bonds are to be issued under the Indenture or secured by the Trust Estate on a parity with the Outstanding Bonds unless there is delivered to the Trustee the following: (a) An Agency resolution authorizing the issuance of the Additional Bonds and the sale thereof to the purchaser or purchasers named therein; (b) an Agency order directing the authentication of a specified principal amount of Additional Bonds of a specified series and the delivery thereof to or upon the order of the purchaser or purchasers named therein upon payment of the purchase price set forth therein; (c) an Agency Certificate to the effect that the principal and interest required to be paid on the Outstanding Bonds, including the Additional Bonds to be issued, in the current and any future Fiscal Year, does not exceed the maximum amount of Housing Infrastructure State Appropriations authorized by the Act in any Fiscal Year; (d) an opinion of Bond Counsel (i) stating that all conditions precedent provided in the Indenture relating to the authentication and delivery of the Additional Bonds have been complied with, and (ii) stating that the Additional Bonds whose authentication and delivery are then applied for, when issued and executed by the Agency and authenticated and delivered by the Trustee, will be the valid and binding special, limited obligations of the Agency in accordance with their terms and entitled to the benefits of and secured by the lien of the Indenture, subject to customary qualifications and assumptions; (e) an executed counterpart of the Supplemental Indenture creating the Additional Bonds; and (f) written confirmation from each Rating Agency that issuance of the Additional Bonds will not impair the then existing rating on Outstanding Bonds.

DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS

The following table sets forth, for each Fiscal Year of the State ending June 30, the amounts to be required for payment of interest on (net of capitalized interest) and principal at maturity or mandatory sinking fund redemption of the Prior Series Bonds and the Series Bonds (assuming no optional redemption of such Bonds) and which are required to be paid from the Housing Infrastructure State Appropriations of up to $9,400,000 expected to be received on July 15 of each fiscal year through fiscal year 2036, $7,200,000 in fiscal years 2037 and 2038 and $800,000 in fiscal year 2039:

Fiscal Year	Prior Series Bonds		Series Bonds		
Ending June 30	Principal	Interest	Principal	Interest	Total
2018	$3,475,000	$4,394,155	$ ---	$ ---	$7,869,155
2019	3,600,000	4,271,080	420,000	490,750	8,781,830
2020	3,725,000	4,143,355	430,000	480,100	8,778,455
2021	3,860,000	4,011,566	445,000	464,750	8,781,316
2022	4,015,000	3,860,699	465,000	446,550	8,787,249
2023	4,175,000	3,690,696	480,000	427,650	8,773,346
2024	4,335,000	3,535,090	505,000	405,425	8,780,515
2025	4,480,000	3,392,961	530,000	379,550	8,782,511
2026	4,645,000	3,221,356	560,000	352,300	8,778,656
2027	4,855,000	3,017,950	585,000	323,675	8,781,625
2028	5,060,000	2,807,075	615,000	293,675	8,775,750
2029	5,260,000	2,605,675	645,000	265,400	8,776,075
2030	5,480,000	2,389,691	670,000	239,100	8,778,791
2031	5,715,000	2,152,619	700,000	211,700	8,779,319
2032	5,955,000	1,910,134	725,000	186,825	8,776,959
2033	6,225,000	1,641,825	745,000	164,775	8,776,600
2034	6,525,000	1,347,769	770,000	138,200	8,780,969
2035	6,840,000	1,033,938	805,000	106,700	8,785,638
2036	7,170,000	696,950	835,000	73,900	8,775,850
2037	5,440,000	398,750	865,000	43,144	6,746,894
2038	5,695,000	143,725	895,000	14,544	6,748,269
2039	440,000	6,600	---	---	446,600

Under the Indenture, Housing Infrastructure State Appropriations are to be credited to the Bond Fund and applied to the payment of principal of and interest on Outstanding Bonds before being applied to the payment of fees, charges and expenses with respect to the Bonds. (See "Appendix A—Summary of Certain Provisions of the Indenture—Bond Fund.")

STATE FINANCIAL INFORMATION

The Bonds (including the Series Bonds) are special, limited obligations of the Agency. Specified transfers expected to be made by the State pursuant to Section 462A.37 of the Act are pledged pursuant to the Indenture for the payment of the Outstanding Bonds. (See "Nature of Obligation and Source of Payment.") Potential purchasers and Owners of the Series Bonds are advised to consider the likelihood of their full and timely receipt of principal and interest payments on the Series Bonds when due on the basis of the financial condition of the State, rather than that of the Agency.

Basic financial statements for the State for the Fiscal Year ended June 30, 2016, as well as certain additional information concerning the State, are included in the Official Statement of the State of Minnesota dated September 27, 2017 (the "September 27, 2017 State Official Statement") with respect to its $858,175,000 General Obligation State Bonds, which is attached hereto as Appendix E. The State most recently released certain revenue and expenditure forecasts prepared by the Department of Management and Budget in February 2017. Information concerning this forecast is included in the September 27, 2017 State Official Statement in Appendix B thereto under

the caption "Biennium Budgets – February 2016 Forecast – Current Biennium." The next official forecast of revenue and expenditures will be prepared in November 2017 and will be released in early December 2017.

The November 2017 forecast of revenue and expenditures will be available on the Minnesota Management and Budget website (www.mn.gov/mmb/) and on the Municipal Securities Rulemaking Board's internet repository named "Electronic Municipal Market Access" ("EMMA") filed with respect to the Series Bonds. Any amendment or supplement to the basic financial statements of the State, and any subsequent financial statements published by the State and made publicly available in a State official statement or revenue and expenditure forecast required by statute or an official quarterly economic update published by the State on the Minnesota Management and Budget website and also filed on EMMA with respect to the Series Bonds, to and including a date 25 days following the "end of the underwriting period" (as defined in Rule 15c2-12 of the Securities and Exchange Commission) applicable to the Series Bonds offered hereby, will be deemed to be incorporated by reference in this Official Statement from the date made publicly available. No other information on the Minnesota Management and Budget website or on EMMA is incorporated into this Official Statement. Any statement contained in any document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently publicly available document that also is, or is deemed to be, incorporated by reference herein modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

THE DEVELOPMENT

The Series Bonds are being issued to provide money for the Agency to fund one or more Housing Infrastructure Loans for the purposes permitted to be funded pursuant to Section 462A.37 of the Act.

A Housing Infrastructure Loan is expected to finance a portion of the cost of the construction of a multifamily permanent supportive housing development, known as Dorothy Day Residence. The development will consist of the top four floors of a one-building multi-story supportive housing development in Saint Paul, Minnesota. The development will have 177 residential units, with support services provided by Catholic Charities of Saint Paul and Minneapolis. The development will be acquired and constructed by Dorothy Day Residence Limited Partnership, a Minnesota limited partnership, or an affiliate thereof or successor thereto, as its initial owner, operator or manager; one of the managing partners of which will be Catholic Charities of Saint Paul and Minneapolis, or another entity of Catholic Charities of Saint Paul and Minneapolis.

The Housing Infrastructure Loan described above will be a 0% interest, non-amortizing, nonrecourse deferred loan. Certain of the Housing Infrastructure Loans may also be forgivable if the conditions for use are met. No revenues from the Housing Infrastructure Loans are expected to be available to pay debt service on the Series Bonds, and payments on the Housing Infrastructure Loans, if any, are not pledged to pay principal of or interest on the Series Bonds. Consequently, Owners of the Series Bonds should not regard the Housing Infrastructure Loans or the developments financed thereby as providing security for the Series Bonds.

If this development does not proceed for any reason, to the extent permitted by the Code, the Agency may use moneys in the Program Fund to make loans for other developments eligible for funding under Section 462A.37 of the Act.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds related to the Series Bonds are as follows:

Sources:

Principal Amount of Series Bonds	$12,690,000
Net Original Issue Premium	1,107,028
Total Sources of Funds	$13,797,028

Uses:

Deposit to Program Fund for Housing Infrastructure Loans	$13,478,745
Capitalized Interest	133,362
Costs of Issuance	77,690
Underwriters' Compensation	107,231
Total Uses of Funds	$13,797,028

The Agency may reimburse itself from proceeds of the Series Bonds for Agency funds advanced to fund Housing Infrastructure Loans and related costs authorized by the Act before the date of issuance of the Series Bonds.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The applicable federal tax law establishes certain requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). These requirements are generally described below. Noncompliance with these requirements may cause interest on the Series Bonds to become includable in gross income for purposes of federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which that noncompliance is ascertained or occurs.

The Indenture and the Bond Compliance Agreements and the Tax Exemption Agreements described in the Indenture contain provisions (the "Tax Covenants") pursuant to which, in the opinion of Bond Counsel, the current requirements of the Code can be satisfied.

Opinion of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered, with respect to the Series Bonds, on the date of issuance of the Series Bonds, assuming the accuracy of certain representations and continuing compliance by the Agency and, where applicable, the recipients of the Housing Infrastructure Loans with the Tax Covenants, under existing laws, regulations, rulings and judicial decisions, interest payable on the Series Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to that exclusion of interest on any Series Bond for any period during which that Series Bond is held by a person who is a "substantial user" of a facility financed with the proceeds of the Series Bonds or a "related person" within the meaning of Section 147(a) of the Code. Bond Counsel is further of the opinion that interest on the Series Bonds is not a specific preference item for purposes of the federal alternative minimum tax and that interest on the Series Bonds is not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. Interest on the Series Bonds is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the Series Bonds is not includable in the Minnesota alternative minimum taxable income of individuals, estates and trusts.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series Bonds, and renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series Bonds, or under state and local tax law.

A form of the Bond Counsel opinion with respect to the Series Bonds is attached hereto as Appendix D.

Prospective owners of the Series Bonds should be aware that the ownership of obligations such as the Series Bonds may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. The extent of these collateral tax consequences will depend upon that owner's particular tax status and other items of income or deduction, and Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series Bonds should consult their tax advisors as to the tax consequences of purchasing or owning the Series Bonds.

The foregoing is a brief discussion of certain collateral federal income tax matters with respect to the Series Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series Bonds.

Certain Ongoing Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with those requirements may cause interest on the Series Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which the noncompliance occurs or is discovered. The Agency will covenant that it shall do and perform all acts necessary or desirable to assure the exclusion of interest on the Series Bonds from gross income under Section 103 of the Code. The Agency will deliver a certificate with respect to ongoing federal tax requirements with the issuance of the Series Bonds which will contain provisions relating to compliance with the requirements of the Code. The Agency also has required or will require recipients of the Housing Infrastructure Loans to make certain covenants relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any such covenant, the remedies available to the Agency or the owners of the Series Bonds can be enforced judicially in a manner to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income of the interest on the Series Bonds for federal income tax purposes.

Certain Considerations With Respect to Series Bonds

Low Income Set-Aside Requirements under the Code. The Series Bonds are "exempt facility bonds" that are subject to certain low income set-aside requirements of the Code. This section includes brief summaries of the low income set-aside requirements and certain other requirements for qualified residential rental projects under the Code.

The Code requires that at least 95 percent of the net proceeds of exempt facility bonds under Section 142(a)(7) (after reduction for amounts applied to fund a reasonably required reserve fund) be used to provide "qualified residential rental projects." The Code defines a residential rental project as a project containing units with

separate and complete facilities for living, sleeping, eating, cooking, and sanitation, or containing single room occupancy units, that are available to the general public (subject to preferences for homeless, disabled and similar classes of tenants that do not violate United States Department of Housing and Urban Development policies respecting non-discrimination and applicable Fair Housing requirements) and are to be used on other than a transient basis. Section 142(d) of the Code requires that either (i) at least 20% of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the "qualified project period" by individuals and families whose annual adjusted income does not exceed 50% of the area median income (with adjustments for family size), or (ii) at least 40% of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the qualified project period by individuals and families whose annual adjusted income does not exceed 60% of the area median income (with adjustments for family size). The Agency will make elections on the applicable low income set-aside requirements with respect to each development expected to be financed with the proceeds of the Series Bonds. In addition, all of the units in a development must be rented or available for rental on a continuous basis throughout the applicable qualified project period. The Code defines the "qualified project period" as the period beginning on the first day upon which 10% of the units in a project are occupied and ending on the latest of (i) the date that is 15 years after the date upon which 50% of the residential units in the project are occupied, (ii) the first day on which no tax-exempt private activity bond issued with respect to the project is outstanding, or (iii) the date upon which any assistance provided with respect to the project under Section 8 of the United States Housing Act of 1937, as amended, terminates. A development generally will meet the continuing low income set aside requirement so long as a tenant's income does not increase to more than 140% of the applicable income limitation. Generally, upon an increase of a tenant's income over 140% of the applicable income limitation, the next available unit of comparable or smaller size in the applicable development must be rented to a tenant whose income does not exceed the applicable income limitation; provided however, that if tax credits under Section 42 of the Code are allowed with respect to the applicable development, the next available unit of a comparable or smaller size in the same building as the tenant whose income has increased over 140% of the applicable income limitation must be rented to a tenant whose income does not exceed the applicable income limitation. The Code requires annual certifications to be made by the operator of the development to the Secretary of the Treasury regarding compliance with the applicable income limitations.

Expenditures for Rehabilitation. The Code requires that the owner of an existing development spend a minimum sum of money for rehabilitation expenditures with regard to the development. The minimum amount of rehabilitation expenditures that must be incurred is equal to 15% of the amount of Series Bond proceeds, if any, applied to pay for the cost of acquiring an existing building (including the building fixtures and equipment within, but not including the cost of land). That minimum amount of rehabilitation expenditures must be incurred no later than 2 years after the later of the date of issuance of those Series Bonds or the date that the building is acquired by the owner. The Code also requires that less than 25% of the net proceeds of the Series Bonds be used to acquire land.

Certain State Tax Legislation. Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of that interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued.

On May 19, 2008 the U.S. Supreme Court held in Department of Revenue of Kentucky v. Davis that Kentucky's taxation of interest on bonds issued by other states and their political subdivisions, while exempting from taxation interest on bonds issued by the Commonwealth of Kentucky or its political subdivision, does not impermissibly discriminate against interstate commerce under the Commerce Clause of the U.S. Constitution. In a footnote, however, the Court stated that it had not addressed whether differential treatment of "so called 'private activity,' 'industrial revenue,' or 'conduit' bonds . . . used to finance projects by private entities" violate the Commerce Clause, adding that "we cannot tell with certainty what the consequences would be of holding that Kentucky violates the Commerce Clause by exempting such bonds; we must assume that it could disrupt important projects that the States have deemed to have public purposes. Accordingly, it is best to set this argument aside and

leave for another day any claim that differential treatment of interest on private-activity bonds should be evaluated differently from the treatment of municipal bond interest generally."

Since the Series Bonds are "private activity bonds" and the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in other states, the Agency cannot predict the outcome of any challenge. If Minnesota's treatment of those bonds were held to unlawfully discriminate against interstate commerce, the court making such a finding would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series Bonds to become taxable by Minnesota and the market value of the Series Bonds to decline.

Bond Premium

Certain of the Series Bonds may be sold at a premium. An amount equal to the excess of the issue price of a Series Bond over its stated redemption price at maturity constitutes premium on that Series Bond. An initial purchaser of a Series Bond must amortize any premium over that Series Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Series Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in that Series Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes, upon a sale or disposition of that Series Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Series Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Series Bond.

Original Issue Discount

Any Series Bonds that are sold at an initial public offering price that is less than the stated amount to be paid at maturity will constitute "Discount Bonds." The difference between the initial public offering prices of any such Discount Bond and the stated amount to be paid at maturity constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes to the same extent as interest on such Discount Bond.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days that are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

Changes in Federal Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above, prevent owners of the Series Bonds from realizing the full current benefit of the tax treatment of the Series Bonds or adversely affect the market value of the Series Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced that, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

CONTINUING DISCLOSURE

The Agency will covenant in a continuing disclosure undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix C hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the State and to provide notices of the occurrence of certain enumerated events. That information and notices are to be filed by the Agency with the Municipal Securities Rulemaking Board through its internet repository named "Electronic Municipal Market Access" (EMMA). (See "Appendix C — Summary of Continuing Disclosure Undertakings.") The Agency and the State will enter into a separate agreement pursuant to which the State will agree to provide to the Agency the information needed for the Annual Report described in Appendix C. (See "Appendix C — Summary of Continuing Disclosure Undertakings.")

These covenants have been made in order to assist the Underwriters in complying with the Rule (as defined in Appendix C hereto). Breach of the covenants will not constitute a default or an "Event of Default" under the Series Bonds or the Indenture. A broker or dealer is to consider a known breach of the covenants, however, before recommending the purchase or sale of the Series Bonds in the secondary market. Thus, a failure on the part of the Agency or the State to observe the covenants may adversely affect the marketability and liquidity of the Series Bonds and their market price. The Agency timely filed the Agency Annual Report for its fiscal year ended June 30, 2015 with EMMA; however, until March 14, 2016, that Agency Annual Report was not specifically linked to the CUSIP for the Agency's Homeownership Finance Bonds, 2015 Series C (CUSIP 60416QGE8) and one CUSIP for the Agency's Residential Housing Finance Bonds, 2015 Series C (CUSIP 60416SKL3). In undertakings where the State is the obligated person, the Agency cannot provide annual financial information and operating data of the State until received from the State. For information on the State's record of compliance with its continuing disclosure obligations, its submission of a report to the Securities and Exchange Commission (the "SEC") in response to its Municipal Continuing Disclosure Cooperation Initiative (the "MCDC"), and the issuance of a Cease-and-Desist Order by the SEC and related State undertakings under the MCDC describing certain misstatements contained in several of the State's final official statements, with regard to the State's compliance with its continuing disclosure undertakings, see the disclosure under the section heading "CONTINUING DISCLOSURE" in the September 27, 2017 State Official Statement included as Appendix E hereto.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the Agency or the State, overtly threatened any litigation against the Agency or the State seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series Bonds, or in any manner questioning or affecting the validity of the Series Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

While at any given time, including the present, there are numerous civil actions pending against the State, that could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 19 to the State Financial Statements for Fiscal Year Ended June 30, 2016, set forth in Appendix F of the September 27, 2017 State Official Statement included as Appendix E hereto, and additional actions, if any, discussed in the section entitled "LITIGATION" in the September 27, 2017 State Official Statement, no pending actions are likely to have a material adverse effect in excess of $15 million on the State's expenditures or revenues during the current biennium.

CERTAIN LEGAL MATTERS

The validity of, and the tax exemption of interest on, the Series Bonds are subject to the opinion of Kutak Rock LLP, Bond Counsel. The opinion of Bond Counsel will be provided in substantially the form set forth in Appendix D attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Cozen O'Connor.

RATINGS

The Series Bonds are rated "Aa2" by Moody's Investors Service, Inc. and "AA" by Standard & Poor's Ratings Services. The ratings reflect only the views of these rating agencies. For an explanation of the ratings as described by those rating agencies, please contact the rating agencies. The ratings are subject to change or withdrawal by either of the rating agencies at any time. Therefore, after the date hereof, investors should not assume that those ratings are still in effect. A downward revision or withdrawal or suspension of either rating is likely to have an adverse effect on the market price and marketability of the Series Bonds.

FINANCIAL ADVISOR

CSG Advisors Incorporated (the "Financial Advisor") is serving as financial advisor to the Agency with respect to the planning, structuring and sale of the Series Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series Bonds and provided other advice to the Agency. The Financial Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the issuance and sale of the Series Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

UNDERWRITING

RBC Capital Markets, LLC, Piper Jaffray & Co. and Wells Fargo Bank, National Association (collectively, the "Underwriters") will purchase the Series Bonds at an aggregate purchase price of $13,689,797.04 (which price reflects an underwriting discount of $107,231.41 and net original issue premium of $1,107,028.45). The Underwriters may offer and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

Each of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the Agency, for which they may have received or will receive customary fees and expenses. In the ordinary course of their various business activities, each of the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in those securities and instruments. Those investment and securities activities may involve securities and instruments of Agency.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Series Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Series Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series Bonds with WFA. WFBNA also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association is serving as one of the Underwriters for the Series Bonds. Wells Fargo Bank, National Association is also serving as Trustee under the Indenture (which includes acting as paying agent for the Series Bonds) for which it will be compensated separately.

MISCELLANEOUS

This Official Statement is submitted in connection with the offering of the Series Bonds and may not be reproduced or used, as a whole or in part, for any other purposes. Any statement made or incorporated in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or owners of any of the Series Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

By /s/ Mary Tingerthal
Commissioner

Dated: October 12, 2017.

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture contains various definitions, covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Indenture for a full and complete statement of its provisions.

Certain Defined Terms

Agency Certificate: As the case may be, a document signed by an Authorized Officer either (i) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth, (ii) setting forth matters to be determined by the Agency or an Authorized Officer pursuant to the Indenture, or (iii) requesting or directing the Trustee or other party to take action pursuant to the Indenture.

Agency Resolution: A copy of a resolution certified by an Authorized Officer to have been duly adopted by the members of the Agency and to be in full force and effect on the date of such certification, and delivered to the Trustee.

Authorized Officer: The Chairperson, Vice Chairperson, Commissioner or Deputy Commissioner of the Agency or any other person authorized by resolution of the Agency to perform an act or sign a document.

Bond Compliance Agreement: A Bond Compliance Agreement, if any, entered into by the Agency and a borrower with respect to a loan funded with proceeds of Bonds deemed to be "private activity bonds" under the Code.

Bond Counsel: Any attorney or firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds selected by the Agency.

Bond Fund: The Bond Fund created under the Indenture within the Agency's Housing Development Fund.

Bondowner: A Person in whose name a Bond is registered in the Bond Register.

Business Day: Any day (a) other than a Saturday, Sunday or other day that is a legal holiday in the State, and (b) on which banks in the city in which the designated principal corporate trust office of the Trustee are located are not required or authorized by law to be closed.

Code: The Internal Revenue Code of 1986, as amended and the applicable temporary, proposed and final Treasury regulations promulgated thereunder or applicable thereto.

Default: An Event of Default and an event or condition, the occurrence of which would, with the lapse of time or the giving of notice or both, became an Event of Default.

Fiscal Year: The 12-month period commencing July 1 and concluding on June 30 in the next succeeding calendar year, or any other 12-month period designated by the State as its fiscal year.

Government Obligations: Direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America (including obligations issued or held in book-entry form on the books of the United States Department of the Treasury).

Interest Payment Date: The date on which interest is payable on any Bonds (other than upon redemption of a Bond on a date other than a regularly schedule interest payment date).

Investment Obligations: Any of the following securities and other investments, if and to the extent the same are at the time legal for the investment of the Agency's moneys:

(a) Government Obligations;

(b) Obligations (i) that are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;

(c) Interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including the Trustee) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such depository has combined capital and surplus of at least $75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not adversely affect the Rating of the Bonds or (iii) the deposit of funds with such depository will not adversely affect the Rating of the Bonds;

(d) Repurchase agreements and reverse repurchase agreements with banks that are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (a) and (b) of this definition;

(e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in clause (a), (b) or (d) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least $75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in clause (a), (b) or (d) above;

(f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and

(g) Any other investment that will not adversely affect the Rating of the Outstanding Bonds.

Opinion of Counsel: A written opinion of counsel selected by the Agency and acceptable to the Trustee or selected by the Trustee.

Outstanding: When used with respect to Bonds, as of the date of determination, all Bonds theretofore authenticated and delivered under the Indenture *except*:

(i) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Bonds for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee in trust for the Owners of such Bonds; *provided* that if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Bonds which have been defeased within the meaning of the Indenture; and

(iv) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture;

provided, however, that in determining whether the Owners of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Agency shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded.

Owner: With respect to any Bond, the Bondowner.

Person: Any individual, corporation, limited liability company, partnership, limited liability partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Program Fund: The Program Fund created under the Indenture.

Rating: With respect to any Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency under the Indenture, and an action that does not "impair" the Rating with respect to any Bonds shall be an action that will not cause the Rating Agency to lower, suspend or withdraw the rating it has assigned to the Bonds.

Rating Agency: Any nationally recognized entity that, upon the request of the Agency, has issued a credit rating on any Bonds issued pursuant to the Indenture.

Rebate Fund: The Rebate Fund created under the Indenture.

Record Date: The 15th day, whether or not a Business Day, of the month immediately preceding the month in which each Interest Payment Date, or any Redemption Date, occurs.

Redemption Date: When used with respect to any Bond to be redeemed, the date fixed for such redemption by or pursuant to the Indenture.

Redemption Price: When used with respect to any Bond to be redeemed, the price at which it is to be redeemed pursuant to the Indenture.

Sinking Fund Payment Date: A date set forth in any applicable provision of the Indenture or a Supplemental Indenture for the making of a mandatory principal payment for the redemption of a Term Bond.

Special Record Date: A date fixed by the Trustee pursuant to the Indenture for the payment of any interest not paid at its Stated Maturity.

Stated Maturity: When used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

Tax Exemption Agreement: A Tax Exemption Agreement, if any, entered into by the Agency and a borrower with respect to a Loan funded with proceeds of Bonds not deemed to be "private activity bonds" under the Code.

Term Bonds: Any Bond for the payment of the principal of which mandatory payments are required by a Supplemental Indenture to be made at times and in amounts sufficient to redeem all or a portion of such Bond prior to its Stated Maturity.

Trust Estate: The assets, revenues and other property pledged pursuant to the Granting Clauses of the Indenture.

Program Fund

The Agency by the Indenture establishes an account with the Trustee to be designated the "Program Fund," as a subaccount of the housing infrastructure bond account established by the Act, and is required to deposit with the Trustee to the credit thereof proceeds of the Series Bonds as provided in the Indenture. Income and profit from the investment of moneys in the Program Fund shall be credited to such Fund. The moneys in the Program Fund shall be held in trust by the Trustee and applied to the funding of the Housing Infrastructure Loans and payment of costs of issuance of the Series Bonds. The Trustee shall create specific accounts within the Program Fund, upon receipt of an Agency Certificate, to fund specific Housing Infrastructure Loans. The Trustee shall pay each item payable from the applicable account in the Program Fund to the Agency or at the Agency's direction, or shall make arrangements for the transfer and deposit of the amount for such payment, as the Agency shall request. Upon receipt by the Trustee of an Agency Certificate stating that all amounts to be paid with respect to Housing Infrastructure Loans financed by

Bonds of such series has been paid, any balance remaining in the Program Fund with respect to such Bonds shall be transferred to the Bond Fund.

Bond Fund

The Agency by the Indenture establishes, and is required to maintain, so long as any of the Bonds are outstanding, with the Trustee, a separate account within the Agency's Housing Development Fund to be designated the "Housing Infrastructure State Appropriation Bond Fund," as a subaccount of the housing infrastructure bond account established by the Act, into which the Agency and Trustee shall make certain deposits pursuant to the Indenture, including, as received each year, all Housing Infrastructure State Appropriations paid by the State. The moneys and investments in the Bond Fund are irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of, premium (if any) on and interest on the Bonds, as and when such principal, premium and interest shall become due and payable. Except as otherwise provided in the Indenture (see "Compensation of Trustee" and "Application of Revenues and Other Moneys After Event of Default" hereinafter), so long as all principal, premium and interest on the Bonds have been paid when due, and the amount in the Bond Fund is sufficient to pay the principal of and interest on Outstanding Bonds in the current Fiscal Year, upon the written direction of the Agency pursuant to an Agency Certificate, the Trustee may use moneys in the Bond Fund in excess of such amount to pay fees, charges and expenses with respect to the Bonds. Upon the written direction of the Agency, the Trustee may use moneys in the Bond Fund to purchase Bonds maturing or subject to redemption on a Sinking Fund Payment Date on either of the next two Interest Payment Dates after such purchase, provided that such Bonds are delivered to the Trustee for cancellation upon such purchase.

Investment of Moneys in Program Fund and Bond Fund

The Trustee shall invest the moneys on deposit in the Program Fund or held as a part of the Bond Fund, respectively, at the written request and direction of an Authorized Officer in Investment Obligations. The type, amount and maturity of Investment Obligations shall conform to any instructions of the Authorized Officer. The Trustee may, from time to time, cause any such investments to be sold or otherwise be converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to the respective Fund. Any interest or profit derived from investments shall be credited to the respective Fund. Investments permitted under the Indenture may be purchased from the Trustee or from any of its affiliates. No portion of the Program Fund or the Bond Fund representing proceeds of the Bonds shall be invested or used in such manner that no part of a series of Bonds would be "arbitrage bonds" under the Code; the Trustee may conclusively rely on the written direction of an Authorized Officer as to compliance with the Code. The Trustee shall be entitled to assume that any investment that at the time of purchase is an Investment Obligation remains an Investment Obligation thereafter, absent receipt of written notice or information to the contrary. If no investment direction is received for a Fund, the funds shall be held uninvested. The Trustee shall have no liability or responsibility for any loss or for failure to maximize earnings resulting from any investment for a Fund made in accordance with the Indenture.

Rebate Fund

The Trustee shall establish a special fund designated as the "Rebate Fund." The Rebate Fund is not a trust fund, is not part of the Trust Estate and is not subject to the lien of the Indenture. For each series of Bonds that is subject to the rebate requirements of Section 148(f) of the Code, or its equivalent, a separate account shall be established in the Rebate Fund. The Trustee shall make information regarding the investments thereunder available to the Agency and shall make deposits in and disbursements from the Rebate Fund in accordance with written instructions in an Agency Certificate delivered from time to time, shall invest the Rebate Fund pursuant to said written instructions, and shall deposit income from such investments immediately upon receipt thereof in the Rebate Fund. The Trustee shall upon receipt of an Agency Certificate transfer moneys from the Bond Fund or moneys representing interest income from the Program Fund, as directed by the Agency Certificate, to the Rebate Fund in the amount of any required deposit. Records of transactions with respect to the separate account within the Rebate Fund for a series of Bonds shall be retained by the Trustee until six years after the Bonds of such series are no longer outstanding.

Payment of Bonds

The Agency covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture and in each and every Bond executed, authenticated and delivered thereunder; will pay or cause to be paid, solely from the Trust Estate, including Housing Infrastructure State Appropriations, the principal of, premium (if any) on and interest on every Bond issued thereunder on the dates, at the places and in the manner prescribed in the Bonds in any coin or currency that, on the respective dates of payment of such principal and interest, is legal tender for the payment of public and private debts; and will cause such amounts received to be deposited with the Trustee prior to the due date of each installment of principal and interest and prior to the maturity of any Bond in amounts sufficient to pay such installment; provided, however, that the principal of and interest on any Bond are not and shall not be an indebtedness or other obligation of the State and the Bonds are not public debt of the State, and the full faith and credit of the State are not pledged to their payment or for any annual transfers of Housing Infrastructure State Appropriations to the Agency. The Agency covenants that it will take all actions required by the Act to cause the Housing Infrastructure State Appropriations to be received on or prior to the dates such amounts are required to pay, with other amounts available in the Bond Fund, principal of and interest of Outstanding Bonds and will deposit all Housing Infrastructure State Appropriations as received in the Bond Fund.

Covenant to Request Housing Infrastructure State Appropriations

On or prior to each June 30 while any Bonds remain Outstanding, the Agency covenants that it will certify to the Commissioner of Management and Budget of the State the amount of principal, premium, if any, and interest on each series of the Bonds, and the fees, charges, and expenses related to each series of the Bonds, payable in the next succeeding Fiscal Year, less the amount on hand in the Bond Fund and available to pay such amounts.

Covenants Relating to Housing Infrastructure Loans

The Agency covenants that the proceeds of the Bonds will be used solely to pay costs of issuance of the Bonds, to pay interest on the Bonds prior to the first date Housing Infrastructure State Appropriations are received and to fund Housing Infrastructure Loans meeting such criteria for Housing Infrastructure State Appropriations as shall be set forth in Section 462A.37 of the Act. Proceeds of the Bonds may also be used for other purposes authorized by the Act as amended from time to time.

Tax Covenants with Respect to Series Bonds

The Agency shall not take any action or fail to take any action or permit any action to be taken on its behalf or cause, or permit any circumstance within its control to arise or continue, if such action or inaction would adversely affect the exclusion from gross income for federal income purposes of the interest on the Series Bonds. These covenants will survive the payment of the Series Bonds.

The Agency shall not use or permit the use of any proceeds of the Series Bonds or any other funds of the Agency, directly or indirectly, to acquire any securities, obligations, or other investment property, and shall not use or permit the use of any amounts received by the Agency or the Trustee with respect to the Series Bonds in any manner, and shall not take or permit to be taken any other action or actions, that would cause the Series Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Agency acknowledges that the Series Bonds are subject to the rebate requirements of Section 148(f) of the Code and applicable regulations. The Agency agrees that it will retain such records, make such determinations, file such reports and documents and pay such amounts at such times as required under Section 148(f) of the Code and applicable regulations to preserve the exclusion of interest on the Series Bonds from gross income for federal income tax purposes.

The Agency shall not use or permit the use of any proceeds of the Series Bonds or any other funds of the Agency, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, that would result in any Development financed with proceeds of the Series Bonds not being treated as a "qualified residential rental project" as such phrase is used in Sections 147(a)(7) and 142(d) of the Code. In furtherance of this covenant the Agency will enter into a Bond Compliance Agreement with respect to each Housing Infrastructure

Loan to be funded with the proceeds of the Series Bonds in order for the interest on the Series Bonds to be excluded from gross income of the owners for purposes of federal income taxation.

Events of Default

Each of the following events is defined as, and is declared to be and to constitute, an "Event of Default" under the Indenture:

(a) If payment of the principal of, or premium, if any, on any of the Bonds, when the same shall become due and payable, whether at Stated Maturity or upon a Sinking Fund Payment Date, or otherwise, shall not be made.

(b) If payment of any interest on the Bonds when the same shall become due and payable shall not be made.

(c) If default shall be made in the performance or observance of any other of the covenants, agreement or conditions on the part of the Agency in the Indenture, or in the Bonds contained, and such failure shall continue for a period of 60 days after written notice thereof to the Agency by the Trustee or to the Agency and to the Trustee by the Bondowners of not less than 10% in principal amount of the Bonds Outstanding, provided that if (i) the Agency is proceeding with due diligence to remedy the same, (ii) the default is able to be remedied, and (iii) the Agency has commenced action during the 60-day period necessary to remedy such default, such 60-day period shall be increased to such extent, but not more than an additional 180 days, as shall be necessary to enable the Agency to cure the default through the exercise of due diligence.

(d) The Agency shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State.

(e) The State has limited or altered the rights of the Agency pursuant to the Act, as in force on the date of adoption of the Indenture, to fulfill the terms of any agreements made with the Owners of the Bonds or in any way impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

Remedies

Upon the occurrence and continuation of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(a) Suit upon all or any part of the Bonds;

(b) Suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners;

(c) Suit to enjoin any acts or things that may be unlawful or in violation of the rights of the Bondowners; and

(d) Enforcement of any other right of the Bondowners conferred by law or by the Indenture.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts that may be unlawful or in violation of the Indenture, or (ii) to preserve or protect the interests of the Bondowners, provided that such request is in accordance with law and the provisions of the Indenture.

Application of Revenues and Other Moneys After Event of Default

The Agency covenants that if an Event of Default shall happen and shall not have been remedied, the Agency, upon demand of the Trustee, shall pay or cause to be paid over to the Trustee, as promptly as practicable after receipt thereof, any Housing Infrastructure State Appropriations and other payments or receipts pledged under the Indenture. During the continuation of an Event of Default the Trustee shall apply such moneys, securities, revenues, payments and receipts and the income therefrom as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee in the performance of duties under the Indenture;

(b) To the payment of the interest and principal or Redemption Price then due and payable on Outstanding Bonds, as follows:

First: To the payment to the Persons entitled thereto of all installments of interest then due and payable in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Outstanding Bonds that shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Outstanding Bonds due and payable on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

Whenever all principal amounts of and interest on all Bonds have been paid under the above provisions, and any required arbitrage rebate and all fees, expenses and charges of the Trustee have been paid, any balance remaining under the Indenture shall be paid to the Agency.

Majority of Bondowners Control Proceedings

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Indenture to the contrary, the Bondowners of at least a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the appointment of a receiver or any other proceedings under the Indenture, provided that such direction is in accordance with law and the provisions of the Indenture and provided that nothing in the Indenture shall impair the right of the Trustee in its discretion to take any other action under the Indenture that it may deem proper.

Individual Bondowner Action Restricted

No Bondowner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for any remedy under the Indenture unless:

(1) an Event of Default has occurred (a) under section (a) or (b) of the Events of Default subheading above, (b) as to which the Trustee has actual notice, or (c) as to which the Trustee has been notified in writing, and

(2) the Bondowners of at least a majority in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and

(3) such Bondowners shall have offered the Trustee indemnity, and

(4) the Trustee shall have failed or refused to exercise the powers in the Indenture granted or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

No one or more Bondowners shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner in the Indenture provided and for the equal benefit of the Bondowners of all Bonds Outstanding appertaining thereto.

Nothing contained in the Indenture shall affect or impair, or be construed to affect or impair, the right of a Bondowner (i) to receive payment of the principal of or interest on such Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Bondowner may institute or prosecute any such suit or enter judgment therein, if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein, under applicable law, would result in the surrender, impairment, waiver or loss of the lien of the Indenture on the moneys, accounts and properties pledged under the Indenture for the equal and ratable benefit of all Bondowners.

Waiver and Non-Waiver of Event of Default

No delay or omission of the Trustee or of any Bondowner to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein. Every power and remedy given by the Indenture with respect to remedies to the Trustee and the Bondowners, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Trustee may waive any Event of Default that in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Indenture, or before the completion of the enforcement of any other remedy under the Indenture.

Notwithstanding anything contained in the Indenture to the contrary, the Trustee, upon the written request of the Bondowners of at least a majority of the aggregate principal amount of Bonds then Outstanding (including, if more than one series of Bonds shall at the time be Outstanding, the Bondowners of a majority in principal amount of the Bonds of each such Series), shall waive any Event of Default under the Indenture and its consequences; provided, however, that except under the circumstances set forth in the paragraph above, a default in the payment of the principal, or Redemption Price, if any, of or interest on any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Owner of such Bond.

In case of any waiver by the Trustee of an Event of Default under the Indenture, the Agency, the Trustee and the Bondowners shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with these provisions.

Notices of Defaults

Within 10 Business Days after the receipt of notice of an Event of Default or the occurrence of an Event of Default of which the Trustee has actual notice or is deemed to have notice, the Trustee, unless such Event of Default shall have theretofore been cured, shall give written notice thereof by first class mail to each Owner of Bonds then Outstanding, provided that, except in the case of a default in the payment of principal or the Redemption Price of or interest on any of the Bonds, the Trustee may withhold such notice if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondowners. The Trustee shall immediately notify the Agency of any Default or Event of Default known to the Trustee.

Trustee May Rely Upon Certain Documents and Opinions

Except as otherwise specifically provided in the Indenture, the Trustee may rely and shall be protected in acting upon certain resolutions, certificates, statements, instruments, opinions, reports, notices, requests, consents,

orders, bonds or other papers or documents and may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel. Before being required to take any remedial action, the Trustee may require an opinion of counsel reasonably acceptable to it, which opinion of counsel shall be made available to the other parties to the Indenture upon request, or a verified certificate of any such party, or both concerning proposed actions.

Compensation of Trustee

All advances, counsel fees and other expenses reasonably made or incurred by the Trustee in and about the execution of the trust created by the Indenture and reasonable compensation to the Trustee for its services in the premises, including extraordinary fees such as default fees, if any, shall be paid by the Agency from the Trust Estate. The compensation of the Trustee shall not be limited to or by any provision of law in regard to the compensation of trustees of an express trust. The Trustee shall have a first lien, with right of payment prior to payment on account of interest or principal of any Bond issued under the Indenture, for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created thereby and exercise and performance of the powers and duties of the Trustee thereunder and the cost and expense incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful default of the Trustee). The Trustee's right to receive compensation, reimbursement, indemnification of money due and owing under the Indenture shall survive the Trustee's resignation or removal.

Resignation or Removal of Trustee

The Trustee may resign and be discharged from the trusts created by the Indenture by giving to the Agency 30 days' notice in writing, and to the Bondowners 30 days' notice by certified mail at its or his address as set forth on the registration books of such resignation, specifying a date when such resignation shall take effect. Such resignation shall take effect on the day specified in such notice, if a successor Trustee has been appointed, or upon such later date as a successor is appointed. If no successor Trustee shall have been appointed and have accepted appointment within 90 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee may petition a court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Any Trustee may be removed at any time by an instrument or instruments in writing, appointing a successor to the Trustee so removed, filed with the Trustee and executed by either (i) the Agency, if it is not then in Default under the Indenture; or (ii) the Owners of a majority in principal amount of the Bonds secured by the Indenture and then Outstanding.

Appointment of Successor Trustee

In case at any time the Trustee shall resign or shall be removed or otherwise shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee, and a successor may be appointed by either (i) the Agency, if it is not then in Default under the Indenture; or (ii) the Owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or instruments in writing filed with the Trustee and notification thereof being given to the Agency. In the event the Trustee has been removed by action of the Bondowners, until a new Trustee shall be appointed by the Bondowners as authorized in the Indenture, the Agency may, subject to the provisions thereof, appoint a Trustee to fill such vacancy. After any such appointment by the Agency, the Trustee so appointed shall cause notice of its appointment to be mailed within 30 days of such appointment to the Owners of the Bonds, and any new Trustee so appointed by the Agency shall immediately and without further act be superseded by a Trustee appointed in the manner above provided by the Owners of a majority in principal amount of said Bonds whenever such appointment by said Bondowners shall be made.

If, in a proper case, no timely appointment of a successor Trustee shall be made pursuant to the foregoing provisions the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor trustee. The court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor trustee.

Payment and Discharge of Indenture

If the Agency, its successors or assigns, shall

(a) pay or cause to be paid the principal of and premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or

(b) provide for the payment of principal and premium, if any, of the Bonds and interest thereon by depositing with the Trustee at or at any time before maturity amounts sufficient in cash and/or in Government Obligations (the principal and interest on which when due and payable or redeemable at the option of the holder thereof) and without consideration of any reinvestment thereof shall be sufficient to pay the entire amount due or to become due thereon for principal and premium, if any, and interest to maturity of all said Bonds Outstanding, or

(c) deliver to the Trustee (1) proof satisfactory to the Trustee that notice of redemption of all of the Outstanding Bonds to be called for redemption not surrendered or to be surrendered to it for cancellation has been given or waived as provided in the Indenture, or that arrangements satisfactory to the Trustee have been made ensuring that such notice will be given or waived, or (2) a written instrument executed by the Agency and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Agency, or (3) file with the Trustee a waiver of such notice of redemption signed by the Owners of all of such Outstanding Bonds, and in any such case, deposit with the Trustee before the date on which such Bonds are to be redeemed, as provided in the Indenture, the entire amount of the Redemption Price, in cash and/or Government Obligation (which do not permit the redemption thereof at the option of the issuer) in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of such Redemption Price on the date such Bonds are to be redeemed, and on such prior dates when principal of and interest on the Outstanding Bonds is due and payable, or

(d) surrender to the Trustee for cancellation all Outstanding Bonds for which payment is not so provided, and shall also pay all other sums due and payable under the Indenture by the Agency,

then and in that case, if all required arbitrage rebate has been paid in respect of the Bonds, all the Trust Estate shall revert to the Agency, and the entire estate, right, title and interest of the Trustee and of the Owners of the Bonds shall thereupon cease, determine and become void; and the Trustee in such case, upon the cancellation of all Bonds for the payment of which cash or securities shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Agency, and at its cost and expense, execute to the Agency, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Agency all cash and deposited securities, if any (other than cash or securities for the payment of the Bonds and interest thereon), which shall then be held under the Indenture as a part of the Trust Estate.

In case of any discharge of the lien of the Indenture pursuant to paragraphs (b) or (c) above, there shall be submitted to the Trustee an opinion of Bond Counsel to the effect that the interest on the Bonds being discharged will not become includable in gross income for federal income tax purposes.

Bonds Deemed Not Outstanding After Deposits

When there shall have been deposited at any time with the Trustee in trust for the purpose, cash or Government Obligations the principal and interest on which shall be sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due dates for such interest or to the date fixed for redemption, then upon such deposit all such Bonds shall cease to be entitled to any lien, benefit or security of the Indenture except the right to receive the funds so deposited, and such Bonds shall be deemed not to be Outstanding thereunder; and it shall be the duty of the Trustee to hold the cash and securities so deposited for the benefit of the Owners of such Bonds.

Purposes for Which Supplemental Indentures May be Executed

The Agency, by Agency Resolution, and the Trustee from time to time and at any time, subject to the conditions and restrictions contained in the Indenture, may enter into such indentures supplemental thereto as the

Agency may or shall deem necessary or desirable without notice to or consent of any Bondowner for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Agency in the Indenture or any Supplemental Indenture other covenants and agreements to be observed by the Agency that are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(b) To add to the limitations and restrictions in the Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Agency that are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Agency by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Agency contained in the Indenture;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture or any Supplemental Indenture, of the Housing Infrastructure State Appropriations or of any other part of the Trust Estate;

(e) To cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any Supplemental Indentures that may be defective or inconsistent with any other provision contained in the Indenture or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under the Indenture or any Supplemental Indenture as the Agency may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture or any Supplemental Indenture and which shall not impair the security of the same;

(f) To modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by said Trust Indenture Act of 1939, excluding, however, the provisions referred to in Section 316(a)(2) of said Trust Indenture Act of 1939;

(g) To provide for the issuance of Bonds pursuant to the Indenture;

(h) To make any other change in the Indenture as shall not be, in the opinion of the Trustee, materially adverse to the security or other interests of the Bondowners. With respect to the foregoing, the Trustee may rely upon the opinion of the Rating Agency with respect to whether the Rating of the Bonds has been adversely affected as conclusively establishing whether the change is materially adverse to the security or other interests of the Bondowners.

The Trustee shall not enter into a Supplemental Indenture under these provisions unless it obtains an Opinion of Counsel stating that such Supplemental Indenture has been duly and lawfully adopted in accordance with the provisions of the Indenture and is authorized or permitted by the Indenture.

Modification of Indenture with Consent of Bondowners

Subject to the terms and provisions below, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Agency and the Trustee of such indenture or indentures supplemental thereto as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to or deleting in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that, notwithstanding any other provision of the Indenture, nothing therein contained shall permit or be construed as permitting, without the consent of the Owners of all Outstanding Bonds affected thereby, (i) an extension of the maturity of any Bond issued under the Indenture, or (ii) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (iii) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture, or (iv) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) a reduction in the aggregate principal amount of

the Bonds required to consent to Supplemental Indentures, or (vi) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of such Supplemental Indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

APPENDIX B

BOOK-ENTRY-ONLY SYSTEM

General

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC's partnership nominee. *So long as Cede & Co. or another nominee designated by DTC is the registered owner of the Series Bonds, references herein to the Bondowners, Owners or registered owners of the Series Bonds mean Cede & Co. or such other nominee and do not mean the Beneficial Owners(as hereinafter defined) of the Series Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of beneficial ownership interests in the Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Series Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series Bonds, except in the event that use of the Book-Entry System for Series Bonds is discontinued as described below.

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts those Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series Bonds of the maturity to be redeemed.

Neither DTC nor Cede & Co. (nor other DTC nominee) will consent or vote with respect to any Series Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the bond issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal and redemption price of and interest on the Series Bonds will be made to Cede & Co., or other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the bond issuer or trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of the Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of the payments to Direct Participants will be the responsibility of DTC, and disbursement of the payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under the Indenture, payments made by or on behalf of the Agency to DTC or its nominee will satisfy the Agency's obligations to the extent of the payments so made.

The above information contained in this Appendix B is based solely on information provided by DTC. No representation is made by the Agency, the State or the Underwriters as to the completeness or the accuracy of that information or as to the absence of material adverse changes in that information subsequent to the date hereof.

The Agency, the State, the Underwriters and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the State, the Underwriters nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of, or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Indenture to be given to Owners of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series Bonds; or (6) any consent given or other action taken by DTC as a Bondowner.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under those circumstances, that series of Series Bonds are required to be delivered as described in the Indenture. The Beneficial Owner, upon registration of those Series Bonds held in the Beneficial Owner's name, will become the Bondowner.

The Agency may determine to discontinue the system of book entry transfers through DTC (or a successor securities depository) for the Series Bonds. In that event, the Series Bonds are to be delivered as described in the Indenture.

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APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKINGS

The following statements are extracted provisions of the Continuing Disclosure Undertaking (the "Disclosure Undertaking") to be executed by the Agency in connection with the issuance of the Series Bonds. The Agency and the Minnesota Department of Management and Budget ("MMB") have entered into a separate Continuing Disclosure Agreement (the "State Agreement") under which MMB has agreed to undertake the Annual Financial Information Disclosure in order that the Agency can satisfy the Annual Financial Information Disclosure obligation described below.

Purpose

This Disclosure Undertaking is executed and delivered by the Agency for the benefit of the holders and owners (the "Bondowners") and the Beneficial Owners of the Series Bonds and in order to assist the Participating Underwriter in complying with the requirements of the Rule. There is no obligated person other than the Agency that is a party to the Disclosure Undertaking.

Definitions

In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

(a) "*Annual Financial Information*" means the following financial information and operating data (to the extent not included in Audited Financial Statements): the information in Appendix B to the State of Minnesota Official Statement dated September 27, 2017 included as Appendix E to the Official Statement of the Agency relating to the Series Bonds, Appendix C to such State Official Statement and Appendix F to such State Official Statement.

(b) "*Annual Financial Information Disclosure*" means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as described under "Annual Financial Information Disclosure" herein.

(c) *"Annual Financial Information Disclosure Date"* means December 31 of each year, beginning December 31, 2017.

(d) "*Audited Financial Statements*" means the audited financial statements of the State, prepared pursuant to the standards and as described under the caption "Annual Financial Information Disclosure."

(e) "*Beneficial Owners*" means (1) in respect of a Series Bond subject to a book-entry-only registration system, any person or entity that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series Bond (including persons or entities holding Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series Bond for federal income tax purposes, and such person or entity provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee; or (2) in respect of a Series Bond not subject to a book-entry-only registration system, the registered owner or owners thereof appearing in the bond register maintained by the Trustee, as Registrar.

(f) "*Commission*" means the Securities and Exchange Commission.

(g) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

(h) "*Listed Event*" means the occurrence of any of the events with respect to the Series Bonds set forth below:

1. Principal and interest payment delinquencies;

2. Nonpayment-related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Agency (within the meaning of the Rule);

13. The consummation of a merger, consolidation or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(i) "*Listed Events Disclosure*" means dissemination of a notice of a Listed Event as described under the heading "Listed Events Disclosure" in this Appendix C.

(j) "*MSRB*" means the Municipal Securities Rulemaking Board.

(k) "*Participating Underwriter*" means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Series Bonds.

(l) "*Prescribed Form*" means, with regard to the filing of Annual Financial Information, Audited Financial Statements and notices of Listed Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

(m) "*Rule*" means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

(n) "*Undertaking*" means the obligations of the Agency described under the headings "Annual Financial Information Disclosure" and "Listed Events Disclosure" in this Appendix C.

Annual Financial Information Disclosure

The Agency shall disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below), on or before each Annual Financial Information Disclosure Date, to the MSRB.

The Agency shall deliver such information in Prescribed Form and by such time so that the MSRB receives the information by the Annual Financial Information Disclosure Date.

If any part of the Annual Financial Information can no longer be generated because the operations of the State to which it is related have been materially changed or discontinued, the Agency shall disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Disclosure Undertaking, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

All or a portion of the Annual Financial Information and the Audited Financial Statements may be included by reference to other documents, including official statements of debt issues of the State or related public entities, which have been submitted to the MSRB or filed with the Commission. The Agency shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB by the Annual Financial Information Disclosure Date. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be provided to the MSRB within 10 business days after availability to the Agency.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

If any change is made to the Annual Financial Information as permitted by the Disclosure Undertaking, including for this purpose a change made to the fiscal year-end of the State, the Agency will disseminate a notice to the MSRB of such change in Prescribed Form.

Listed Events Disclosure

The Agency shall disseminate in a timely manner, not in excess of 10 business days after the occurrence of the event, Listed Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series Bonds or defeasance of any Series Bonds need not be given under this Disclosure Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Series Bonds pursuant to the Indenture.

Consequences of Failure of the Agency to Provide Information

The Agency shall give notice in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB in Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Agency to comply with any provision of this Disclosure Undertaking, the Bondowner or Beneficial Owner of any Series Bond may seek specific performance by court order to cause the Agency to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Series Bonds or the Indenture or any other agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Agency to comply with this Disclosure Undertaking shall be an action to compel performance. None of the agreements or obligations of the Agency or of the State shall be construed to constitute a waiver of the State's sovereign immunity

or a waiver of any of the limitations contained in Minnesota Statutes, Section 3.736, except as provided under the laws of the State. Neither a default by the Agency under the Disclosure Undertaking nor a default by the State under the State Agreement shall constitute a default or an Event of Default under the Series Bonds or the Indenture.

Amendment; Waiver

Notwithstanding any other provision of this Disclosure Undertaking, the Agency may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if:

(i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Agency or type of business conducted;

(ii) This Disclosure Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Bondowners of the Series Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee) or by an approving vote of the Bondowners of the Series Bonds holding a majority of the aggregate principal amount of the Series Bonds (excluding Series Bonds held by or on behalf of the Agency or its affiliates) pursuant to the terms of the Indenture at the time of the amendment; or

(iv) The amendment or waiver is otherwise permitted by the Rule.

Termination of Undertaking

This Disclosure Undertaking shall terminate when the Agency shall no longer have any legal liability for any obligation on or relating to the repayment of the Series Bonds. The Agency shall give notice to the MSRB in a timely manner and in Prescribed Form if the Undertaking is so terminated before the final stated maturity of the Series Bonds.

Additional Information

Nothing in this Disclosure Undertaking shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Agency chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the Agency shall not have any obligation under this Disclosure Undertaking to update such information or include it in any future disclosure or notice of the occurrence of a Listed Event.

Beneficiaries

This Disclosure Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Disclosure Undertaking shall inure solely to the benefit of the Agency, the Bondowners and Beneficial Owners of the Series Bonds, and shall create no rights in any other person or entity.

Recordkeeping

The Agency shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

The State Agreement

Under the State Agreement the State agrees to provide the information needed for the Annual Financial Information which the Agency is required to provide under the Disclosure Undertaking. The State may satisfy this obligation either by providing the Annual Financial Information to the Agency or by identifying any other disclosure document which may be included or incorporated by reference in order to satisfy the Annual Financial Information requirement.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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[To be dated the date of issuance of the Series Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
State Appropriation Bonds (Housing Infrastructure), 2017 Series A

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its State Appropriation Bonds (Housing Infrastructure), 2017 Series A, in the aggregate principal amount of $12,690,000 (the "Series Bonds"). The Series Bonds are being issued in accordance with Minnesota Statutes, Chapter 462A, as amended (the "Act"), an Indenture of Trust, dated as of August 1, 2013, as heretofore and hereafter amended and supplemented (the "General Indenture"), by and between the Agency and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and a Sixth Supplemental Indenture of Trust, dated as of October 1, 2017 (the "Supplemental Indenture"), by and between the Agency and the Trustee. The General Indenture and the Supplemental Indenture are referred to herein, collectively, as the "Indenture."

The Series Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Indenture. The Series Bonds are subject to redemption prior to maturity, as provided in the Indenture.

The Series Bonds are being issued to make loans to certain recipients (the "Housing Infrastructure Loans") to pay for all or a portion of the costs of acquisition, construction, rehabilitation and equipping, as applicable, of related developments, including facilities related and subordinate thereto, with respect to abandoned or foreclosed properties or for supportive housing, all as defined in the Act, or to finance or refinance the costs of acquisition and rehabilitation of federally assisted rental housing, and other authorized purposes under the Act.

As bond counsel, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Resolution No. MHFA 17-024, adopted August 31, 2017 (the "Bond Resolution"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

From such examination, and assuming continuing compliance by the Agency and the recipients of the Housing Infrastructure Loans with the covenants contained in the Indenture and the loan documentation relating to each development, it is our opinion that, under existing law as of the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution has been duly and validly adopted by the Agency; (3) the Indenture has been duly authorized and executed and is valid and binding upon the Agency in accordance with its terms, and creates the valid pledge and security interest it purports to create with respect to the Revenues, moneys, securities and other Funds held and to be set aside under the Indenture; (4) the Series Bonds are duly and lawfully authorized to be issued and are valid and binding special, limited obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Indenture, and are payable solely, and equally and ratably, from specified transfers expected to be made by the State of Minnesota (the "State") pursuant to legislation providing for the appropriation of such transfers from the general fund of the State to the Agency and moneys and securities held from time to time in the funds and accounts established and pledged thereto under the Indenture; and (5) the interest payable on the Series Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided, however, that we express no opinion as to the exclusion from federal gross income and Minnesota taxable net income of interest on any Series Bond for any period during which such Series Bond is held by a person who is a "substantial user" of a development financed by the Series Bonds or a "related person" thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code").

Interest on the Series Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and interest on the Series Bonds will not be included in the calculation of adjusted current earnings for purposes of calculating the federal minimum alternative tax imposed on corporations. Interest on the Series Bonds will not be treated as an item of tax preference for purposes of calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal, state or local tax consequences arising from the ownership or disposition of the Series Bonds. All owners of Series Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the Series Bonds.

Noncompliance by the Agency or the recipient of a Housing Infrastructure Loan financed by the Series Bonds with their covenants in the Indenture or applicable loan documentation relating to a development may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the Series Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Series Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Dated: ___, 2017.

Respectfully yours

APPENDIX E

OFFICIAL STATEMENT OF THE STATE OF MINNESOTA

DATED SEPTEMBER 27, 2017

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NEW ISSUES – BOOK ENTRY ONLY

RATINGS: Fitch: AAA
Moody's: Aa1
Standard & Poor's: AA+
See "RATINGS" herein

In the opinion of Kutak Rock LLP, Bond Counsel, under existing federal and Minnesota laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2017A Bonds, the Series 2017B Bonds, the Series 2017D Bonds and the Series 2017E Bonds (collectively, the "Tax-Exempt Bonds") is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating federal alternative minimum taxable income. The interest to be paid on the Series 2017C Bonds is includable in gross income of owners thereof for federal income tax purposes, in taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. For a discussion of tax matters see "TAX MATTERS" herein.

$858,175,000
STATE OF MINNESOTA
General Obligation State Bonds

consisting of:

$312,295,000 General Obligation State Various Purpose Bonds, Series 2017A

$114,000,000 General Obligation State Trunk Highway Bonds, Series 2017B

$27,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2017C

$323,770,000 General Obligation State Various Purpose Refunding Bonds, Series 2017D

$81,110,000 General Obligation State Trunk Highway Refunding Bonds, Series 2017E

(collectively referred to as the "Bonds")

Dated: Date of Delivery **Due: as shown on inside cover**

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE OF MINNESOTA (THE "STATE") AND THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE ARE IRREVOCABLY PLEDGED FOR THE PAYMENT OF THE BONDS AND INTEREST THEREON WHEN DUE.

The Bonds are subject to redemption and prepayment by the State as provided herein.

The Bonds will be available to the purchasers in book entry form only, and initially will be registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. The Bank of New York Mellon Trust Company, N.A. is the Bond Registrar and Paying Agent for the Bonds.

This cover page contains certain information for quick reference only. It is *not* a summary of the Bonds or this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the State subject to the legal opinions of Kutak Rock LLP, Bond Counsel, and of the State Attorney General as to the validity of the Bonds, and of Kutak Rock LLP as to the tax exemption of the interest on the Bonds. Delivery will be made on or about Wednesday, October 11, 2017.

Dated: September 27, 2017

$858,175,000
State of Minnesota
General Obligation State Bonds

Maturities, Amounts, Interest Rates, Prices or Yields and Initial CUSIPs

$312,295,000 General Obligation State Various Purpose Bonds, Series 2017A

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2018	$15,390,000	5.000%	0.930%	KT9
2019	15,390,000	5.000	0.980	KU6
2020	15,390,000	5.000	1.080	KV4
2021	15,390,000	5.000	1.200	KW2
2022	19,890,000	5.000	1.380	KX0
2023	15,390,000	5.000	1.510	KY8
2024	15,390,000	5.000	1.660	KZ5
2025	15,390,000	5.000	1.830	LA9
2026	15,390,000	5.000	1.950	LB7
2027	15,390,000	5.000	2.050	LC5

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2028	$15,390,000	5.000%	2.150%*	LD3
2029	15,390,000	5.000	2.230*	LE1
2030	15,390,000	5.000	2.290*	LF8
2031	15,390,000	5.000	2.360*	LG6
2032	15,390,000	5.000	2.420*	LH4
2033	15,390,000	5.000	2.480*	LJ0
2034	15,390,000	5.000	2.540*	LK7
2035	15,390,000	5.000	2.590*	LL5
2036	15,390,000	5.000	2.640*	LM3
2037	15,385,000	5.000	2.680*	LN1

$114,000,000 General Obligation State Trunk Highway Bonds, Series 2017B

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2018	$5,700,000	5.000%	1.000%	LP6
2019	5,700,000	5.000	1.050	LQ4
2020	5,700,000	5.000	1.150	LR2
2021	5,700,000	5.000	1.250	LS0
2022	5,700,000	5.000	1.410	LT8
2023	5,700,000	5.000	1.540	LU5
2024	5,700,000	5.000	1.700	LV3
2025	5,700,000	5.000	1.850	LW1
2026	5,700,000	5.000	1.970	LX9
2027	5,700,000	5.000	2.070	LY7

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2028	$5,700,000	5.000%	2.170%*	LZ4
2029	5,700,000	2.250	2.444	MA8
2030	5,700,000	3.000	2.600*	MB6
2031	5,700,000	3.000	2.690*	MC4
2032	5,700,000	3.000	2.860*	MD2
2033	5,700,000	3.000	3.000	ME0
2034	5,700,000	3.000	3.090	MF7
2035	5,700,000	3.000	3.140	MG5
2036	5,700,000	3.000	98.000	MH3
2037	5,700,000	3.125	98.250	MJ9

$27,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2017C

$27,000,000 2.020% Serial Bond due October 1, 2022 Price: 100.329 Yield: 1.950% CUSIP No. 60412AKS1**

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*Priced at the stated yield to the October 1, 2027 redemption date at a price of 100%. See "THE BONDS, Optional Redemption" herein.

**The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

$323,770,000 General Obligation State Various Purpose Refunding Bonds, Series 2017D

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2020	$9,495,000	5.000%	1.170%	JU8
2021	40,925,000	5.000	1.270	JV6
2022	40,825,000	5.000	1.430	JW4
2023	29,530,000	5.000	1.560	JX2
2024	29,425,000	5.000	1.710	JY0
2025	29,320,000	5.000	1.860	JZ7

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2026	$29,205,000	5.000%	1.980%	KA0
2027	29,090,000	5.000	2.080	KB8
2028	28,965,000	5.000	2.180*	KC6
2029	28,700,000	3.000	2.460*	KD4
2030	28,290,000	3.000	2.620*	KE2

$81,110,000 General Obligation State Trunk Highway Refunding Bonds, Series 2017E

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2018	$9,840,000	4.000%	0.980%	KF9
2020	7,435,000	4.000	1.170	KG7
2021	7,405,000	4.000	1.270	KH5
2022	7,375,000	4.000	1.430	KJ1
2023	7,375,000	5.000	1.560	KK8
2024	7,420,000	5.000	1.710	KL6

Maturity (October 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2025	$7,465,000	5.000%	1.860	KM4
2026	7,510,000	5.000	1.980	KN2
2027	7,550,000	5.000	2.080	KP7
2028	7,505,000	3.000	2.330*	KQ5
2029	4,230,000	3.000	2.460*	KR3

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* Priced at the stated yield to the October 1, 2027 redemption date at a price of 100%. See "THE BONDS, Optional Redemption" herein.

**The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

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STATE OF MINNESOTA OFFICIALS

GOVERNOR	Mark Dayton
LIEUTENANT GOVERNOR	Tina Smith
SECRETARY OF STATE	Steve Simon
STATE AUDITOR	Rebecca Otto
ATTORNEY GENERAL	Lori Swanson
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF MANAGEMENT AND BUDGET

Myron Frans

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Unless otherwise indicated, information contained in this Official Statement is based upon material provided by the State and available at the date of publication of this Official Statement.

No dealer, broker, salesman or other person has been authorized by the State or Underwriters to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State or Underwriters. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information. Certain information contained herein has been obtained from sources other than records of the State and is believed to be reliable, but it is not guaranteed. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there have not been any changes in the affairs of the State since the date hereof.

This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "possible" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

SUMMARY STATEMENT

(The Summary Statement information is qualified in its entirety by the detailed information contained in this Official Statement)

Issuer:	State of Minnesota
Offering:	$312,295,000 General Obligation State Various Purpose Bonds, Series 2017A (the "Series 2017A Bonds") $114,000,000 General Obligation State Trunk Highway Bonds, Series 2017B (the "Series 2017B Bonds") $27,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2017C (the "Series 2017C Bonds") $323,770,000 General Obligation State Various Purpose Refunding Bonds, Series 2017D (the "Series 2017D Bonds") $81,110,000 General Obligation State Trunk Highway Refunding Bonds, Series 2017E (the "Series 2017E Bonds") *(collectively referred to as the "Bonds")*
Principal Amounts:	The principal amounts of each serial maturity of the Bonds are set forth on the inside cover pages.
Interest:	Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from the Dated Date of the Bonds, payable semiannually on each April 1 and October 1, commencing April 1, 2018.
Dated Date:	Date of Delivery, expected to be October 11, 2017.
Security:	General obligations of the State of Minnesota to which its full faith, credit and taxing powers are pledged.
Book-Entry Bonds:	The Bonds will be issued in fully registered form without interest coupons in denominations of $5,000 and integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds.
Redemption:	The Series 2017A Bonds, the Series 2017B Bonds, the Series 2017D Bonds and the Series 2017E Bonds are subject to optional redemption by the State on and after October 1, 2027. The Series 2017C Bonds are not subject to optional redemption prior to their maturity date. See "Optional Redemption" herein for additional information.

Continuing Disclosure:	See "CONTINUING DISCLOSURE" and APPENDIX G.
Bond Ratings:	The Bonds described herein have been rated "AAA" by Fitch Ratings, "Aa1" by Moody's Investors Service Inc. and "AA+" by Standard & Poor's Ratings Group.
Registrar/Paying Agent/ Escrow Agent:	The Bank of New York Mellon Trust Company, N.A.
Verification Agent:	Grant Thornton LLP
Legal Opinions:	The Bonds are approved as to validity by the State Attorney General and Kutak Rock LLP, as Bond Counsel. Only Kutak Rock LLP will provide the Opinion regarding the tax exemption of interest on the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017D Bonds.
Bonds Outstanding:	The total amount of State general obligation bonds outstanding on the date of issuance of the Bonds, including these issues will be approximately $6.3 billion. The total amount of general obligation bonds authorized but unissued as of the date of issuance of the Bonds, will be approximately $2.1 billion. See APPENDIX C, pages C-1 and C-2.
Additional Information:	Questions regarding this Official Statement should be directed to Jennifer Hassemer, Assistant Commissioner, Minnesota Management and Budget, telephone (651) 201-8079, email jennifer.hassemer@state.mn.us, Susan Gurrola, Financial Analyst, Minnesota Management and Budget, telephone (651) 201-8046, email sue.gurrola@state.mn.us, or Thomas Huestis, Public Resources Advisory Group, telephone (610) 565-5990, email thuestis@pragadvisors.com. Questions regarding legal matters should be directed to Gregory R. Dietrich, Kutak Rock LLP, telephone (402) 346-6000, email Gregory.Dietrich@KutakRock.com.

STATE OF MINNESOTA
$858,175,000
General Obligation State Bonds
consisting of

$312,295,000 General Obligation State Various Purpose Bonds, Series 2017A
$114,000,000 General Obligation State Trunk Highway Bonds, Series 2017B
$27,000,000 General Obligation State Taxable Various Purpose Bonds, Series 2017C
$323,770,000 General Obligation State Various Purpose Refunding Bonds, Series 2017D
$81,110,000 General Obligation State Trunk Highway Refunding Bonds, Series 2017E

(collectively referred to as the "Bonds")

THE BONDS

General

This Official Statement, including the cover page and the Appendices (this "Official Statement"), has been prepared by the State of Minnesota Department of Management and Budget (the "Department" or "MMB") to furnish information relating to the $312,295,000 General Obligation State Various Purpose Bonds, Series 2017A (the "Series 2017A Bonds"), the $114,000,000 General Obligation State Trunk Highway Bonds, Series 2017B (the "Series 2017B Bonds"), the $27,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2017C (the "Series 2017C Bonds"), the $323,770,000 General Obligation State Various Purpose Refunding Bonds, Series 2017D (the "Series 2017D Bonds") and the $81,110,000 General Obligation State Trunk Highway Refunding Bonds, Series 2017E (the "Series 2017 E Bonds") (collectively referred to as the "Bonds") of the State of Minnesota (the "State") to be dated the date of issuance, to prospective purchasers and actual purchasers of the Bonds. Prospective and actual purchasers should read this entire Official Statement.

Authorization and Purpose

The Bonds are being issued by the State, acting by and through its Commissioner of Management and Budget (the "Commissioner"), pursuant to the constitutional and statutory authority as hereinafter described.

The Series 2017A Bonds in the aggregate principal amount of $312,295,000 are being issued for the purpose of financing all or a portion of the cost of certain programs and capital projects, the types of which generally include educational facilities, parks, pollution control facilities, transportation, natural resources and agricultural enterprises.

The Series 2017B Bonds in the principal amount of $114,000,000 are being issued for the purpose of financing the cost of construction, improvement and maintenance of programs and projects of the State trunk highway system.

The Series 2017C Bonds in the principal amount of $27,000,000 are being issued for the purpose of developing the State's agricultural resources by financing the Rural Financing Authority's programs.

The Series 2017D Bonds in the principal amount of $323,770,000 are being issued for the purpose of refunding $348,870,000 in principal amount of certain outstanding general obligation various purpose bonds of the State (the "Various Purpose Refunded Bonds"). The proceeds to refund the Various Purpose Refunded Bonds will be placed in an irrevocable escrow fund and used, together with other available funds, to pay the principal of and interest on the Various Purpose Refunded Bonds to the dates on which such bonds mature or have been called for redemption and prepayment. The Various Purpose Refunded Bonds and the dates on which they will be called for redemption are described in APPENDIX D.

The Series 2017E Bonds in the principal amount of $81,110,000 are being issued for the purpose of refunding $78,665,000 in the principal amount of certain outstanding general obligation trunk highway bonds

of the State (the "Trunk Highway Refunded Bonds"). The proceeds to refund the Trunk Highway Refunded Bonds will be placed in an irrevocable escrow fund and used, together with other available funds, to pay the principal of and interest on the Trunk Highway Refunded Bonds to the dates on which such bonds mature or have been called for redemption and prepayment. The Trunk Highway Refunded Bonds and the dates on which they will be called for redemption are described in Appendix D.

Constitutional Provisions.

Article XI, Section 5 of the Minnesota Constitution authorizes public debt to be incurred for (a) the acquisition and betterment of public land, buildings and other improvements of a capital nature, or for appropriations or loans to State agencies or political subdivisions for this purpose, as the Legislature by a three-fifths vote of both the House of Representatives and the Senate may direct; (b) repelling invasion or suppressing insurrection; (c) borrowing temporarily; (d) refunding outstanding bonds of the State or its agencies; (e) the construction of improvements to and maintenance of the State's trunk highway system; (f) promoting forestation and preventing and abating forest fires; (g) the construction, improvement and operation of airports and other air navigation facilities; (h) the development of the agricultural resources of the State by extending credit on real estate security; and (i) improving and rehabilitating railroad rights-of-way and other rail facilities; all as the Legislature may direct. Article XI requires all such debt to be evidenced by the issuance of State bonds maturing within 20 years of their date of issue, for which the full faith and credit and taxing powers of the State are irrevocably pledged. Public debt is defined by Article XI, Section 4 to include any obligation payable directly, in whole or in part, from a tax of statewide application on any class of property, income, transaction or privilege, but does not include any obligation which is payable from revenues other than taxes. The Minnesota Constitution places no limitation on the interest rate of bonds that may be authorized for these purposes.

Statutory Provisions.

The Series 2017A Bonds, the Series 2017C Bonds, and the Series 2017D Bonds are authorized by Minnesota Statutes, Sections 16A.631 through 16A.675. The Series 2017B Bonds and the Series 2017E Bonds are authorized by Minnesota Statutes, Sections 167.50 through 167.52.

Minnesota Statutes, Section 16A.66, authorizes the issuance of general obligation state refunding bonds with the approval of the State's Executive Council. The issuance of the Series 2017D Bonds and the Series 2017E Bonds were approved by resolutions of the State Executive Council on September 29, 2009, September 27, 2010 and September 12, 2017.

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Session Law Provisions.

Session laws authorizing the issuance of the Series 2017A Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	**Bonds This Issue[2]**
Session 2009, Chapter 93…….....	$ 2,000,000
Session X2011, Chapter 12…….	3,500,000
Session 2012, Chapter 293…….....	600,000
Session X2012, Chapter 1……...	2,000,000
Session 2013, Chapter 136…….....	11,000,000
Session 2014, Chapter 294…….....	86,350,000
Session X2015, Chapter 5……...	45,550,000
Session 2017, Chapter 4	4,500,000
Session X2017, Chapter 8.....	218,000,000
Total:	$ 373,500,000

Session laws authorizing the issuance of the Series 2017B Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	**Bonds This Issue**
Session 2008, Chapter 152…….....	$ 57,400,000
Session X2012, Chapter 1…..…….....	1,200,000
Session 2013, Chapter 117……..…….....	25,300,000
Session X2015, Chapter 5…….....	30,100,000
Total:	$ 114,000,000

Session laws authorizing the issuance of the Series 2017C Bonds and the amounts included in this issue are set forth below.

Law Authorizing	**Bonds This Issue**
Session 2017, Chapter 4…….....	$ 25,500,000
Session X2017, Chapter 8…….....	1,500,000
Total:	$ 27,000,000

[1]See also the table "GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED" on page C-2 and "PROJECT DESCRIPTION" included in APPENDIX D.

[2] Including net premium deposited into the Capital Projects Fund.

Bond Terms

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the inside front cover page hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months. Interest on the Bonds is payable to Bondholders as of the 15th day of the preceding month semiannually on each April 1 and October 1 to maturity or prior redemption, if any, commencing April 1, 2018. If principal or interest is due on a date on which commercial banks are not open for business in the states of Minnesota and New York, then payment will be made on the first day thereafter when such banks are open for business.

The Bonds are issued in book entry form and in denominations of $5,000 or multiples thereof of a single interest rate of a single maturity for each series of Bonds. The Bonds will be issued initially registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Accordingly, printed Bonds will not be available to purchasers of the Bonds. For a description of the book entry system pursuant to which the Bonds will be issued see the section hereof entitled "BOOK ENTRY SYSTEM."

Optional Redemption

The Series 2017A Bonds, Series 2017B Bonds, Series 2017D Bonds and Series 2017E Bonds maturing on or before October 1, 2027 will not be subject to redemption prior to their stated maturity dates. The Series 2017A Bonds, Series 2017B Bonds, Series 2017D Bonds and Series 2017E Bonds maturing on or after October 1, 2028 will be subject to redemption and prepayment by the State at its option on October 1, 2027 and any business day thereafter, in whole or in part, in an order determined by the State and by lot within each maturity at a price of par plus accrued interest to the date specified for redemption.

The Series 2017C Bonds are not subject to redemption prior to their stated maturity date.

Notices of Redemption

So long as the Bonds are registered in the name of the nominee of DTC or another securities depository designated for this purpose as indicated in the section hereof entitled "BOOK ENTRY SYSTEM," notice of any redemption of Bonds will be mailed only to such securities depository, which in turn is obligated to notify its participants who are obligated to notify the Beneficial Owners (as herein defined) of the Bonds. However, the State assumes no responsibility with respect to the giving of such notice of redemption by the securities depository or its participants.

If, in the future, the Bonds are not in book entry form, notice of any redemption of Bonds will be published in financial newspapers circulated in the Minneapolis-St. Paul metropolitan area and in the Borough of Manhattan, City and State of New York, not less than thirty days before the redemption date, stating: (i) the series, original date of issue, maturity dates, CUSIP numbers, and interest rates of the Bonds to be redeemed, (ii) if less than all Bonds of any maturity are to be redeemed, the registration numbers of those to be redeemed, (iii) the principal amount to be redeemed if less than the entire principal amount of any Bond, (iv) the redemption date and price and the name and address of the paying agent where such Bonds must be presented for payment, (v) that on the redemption date the redemption price of the Bonds or portions thereof to be redeemed will be payable, and (vi) that after the redemption date interest will cease to accrue or be payable thereon. Notice will also be mailed to the registered owner of any such Bond at the address shown on the bond register, not less than twenty days before the redemption date.

Notice of redemption having been so given, the Bonds or portion of Bonds therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the paying agent so as to be available therefor, interest thereon shall cease to accrue, and such Bonds or portions thereof shall no longer be considered outstanding under the Commissioner's order authorizing their issuance. The failure to publish notice of redemption shall not affect the validity or effectiveness of mailed notice, and the failure to mail notice to any registered owner, or any defect in the notice mailed to any registered owner, shall not affect the validity or effectiveness of the notice of redemption mailed to any other registered owner.

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SECURITY[1]

State Bond Fund and Property Tax: The Bonds are issued as general obligations of the State, and the laws authorizing their issuance pledge the full faith and credit and taxing powers of the State to the payment of the principal of and interest on the Bonds when due. The Minnesota Constitution, Article XI, requires the maintenance of a State bond fund (the "Debt Service Fund"), and provides that when the full faith and credit of the State has been pledged for the payment of State general obligation bonds, the State Auditor is required to levy each year a tax on all taxable property in the State in the amount needed, if any, along with the balance then on hand in the Debt Service Fund, to pay all principal and interest due and to become due on such State bonds through July 1 of the second ensuing year.

General Fund Appropriations: Article XI of the Minnesota Constitution also provides that no money is to be paid out of the State Treasury except pursuant to an appropriation. Each law authorizing the issuance of general obligation bonds appropriates moneys either directly or by reference to Minnesota Statutes, Chapter 16A, to the Debt Service Fund out of the General Fund (the "General Fund" as defined on page B-1) and, in some cases, from special enterprise or loan repayment funds, sufficient to provide for the payment of such bonds and interest thereon without the levy of a property tax otherwise required by the provisions of the Minnesota Constitution. Moneys on hand in the Debt Service Fund, including all moneys derived from: (i) the foregoing statutory appropriations; (ii) the levy of the State property tax required by the Minnesota Constitution if the amount of appropriated funds on hand does not equal the total required amount of the tax at the time the levy is required; and (iii) income from the investment of the foregoing, are appropriated for the payment of the principal of and interest on State general obligation bonds when due. If moneys on hand at the due date are not sufficient, the statutes also appropriate from the General Fund an amount equal to the deficiency. Since 1966, as a result of transfers of moneys to the Debt Service Fund from the General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

Minnesota Statutes, Section 16A.641, makes an annual appropriation to the Debt Service Fund from the General Fund of the amount that, added to the amount already on hand in the Debt Service Fund, is an amount needed to pay the principal of and interest on all State bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the General Fund to the Debt Service Fund for the Bonds included in this issue will be made by December 1 of each year. (Also see information on page C-5 with respect to the Debt Service Fund transfer.)

Additional Security — State Trunk Highway Bonds: The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund" or "State Trunk Highway Fund") to be used solely for trunk highway system purposes and for the payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of the principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues is distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula allocating the 5% may be made within six years of the last previous change. The current distribution formula was established in the 1998 Legislative Session. During the 2017 Legislative Sessions there were changes made to the formulas prescribing how the amounts deposited to the County State Aid Highway Fund are distributed to individual counties.

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[1] While the State has adopted the revised Article 9 of the Uniform Commercial Code that generally covers security interests created by government debtors, Minnesota Statutes, Section 475.78 provides that Article 9 does not apply to security interests created by the State, except security interests in equipment and fixtures.

Minnesota Statutes, Section 167.51, makes an annual appropriation to the trunk highway bond account in the Debt Service Fund from the State Trunk Highway Fund of the amount that, when added to the amount already on hand in the trunk highway bond account in the Debt Service Fund, is the amount needed to pay the principal of and interest on all State trunk highway bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the State Trunk Highway Fund to the trunk highway bond account in the Debt Service Fund for the State trunk highway bonds included in this issue will be made by December 1 of each year.

Waiver of Immunity: Under Minnesota Statutes, Section 3.751, the State has waived immunity from suit with respect to the controversies arising out of its debt obligations incurred pursuant to Article XI of the Minnesota Constitution, and has conferred jurisdiction on State District Courts to hear and determine such controversies. Accordingly, if the State fails to pay in full the principal of and interest on the Bonds when due, a holder of a Bond on which principal or interest is past due is entitled to commence an action in the District Court for Ramsey County, Minnesota, to enforce the pledge of the State's full faith and credit to the payment of such principal and interest.

SOURCES AND USES OF FUNDS

Various Purpose Bonds

Sources:	Series 2017A Bonds	Series 2017C Bonds	Series 2017D Bonds	Total
Par Amount of Bonds	$312,295,000.00	$27,000,000.00	$323,770,000.00	$663,065,000.00
Net Premium on Bonds	61,969,488.05	88,830.00	57,241,376.35	119,299,694.40
Transfer from State Bond Fund	-	-	9,238,050.00	9,238,050.00
Total Sources	$374,264,488.05	$27,088,830.00	$390,249,426.35	$791,602,744.40
Uses:				
Capital Projects Fund	$373,251,912.95	$26,982,798.14	$ -	$400,234,711.09
Deposit to Escrow Fund	-	-	382,062,706.50	382,062,706.50
Deposit to State Bond Fund	2,488.25	1,080.00	7,107,540.25	7,111,108.50
Underwriters' Discount	761,999.80	87,750.00	783,481.31	1,633,231.11
Cost of Issuance	248,087.05	17,201.86	295,698.29	560,987.20
Total Uses	374,264,488.05	27,088,830.00	390,249,426.35	791,602,744.40

Trunk Highway Bonds

Sources:	Series 2017B Bonds	Series 2017E Bonds	Total
Par Amount of Bonds	$114,000,000.00	$81,110,000.00	$195,110,000.00
Net Premium on Bonds	11,049,108.00	11,833,172.95	22,882,280,.95
Transfer from State Bond Fund	-	2,380,487.50	2,380,487.50
Total Sources	$125,049,108.00	$95,323,660.45	$220,372,768.45
Uses:			
Capital Projects Fund	$113,878,194.94	$ -	$113,878,194.94
Deposit to Escrow Fund	-	83,383,775.19	83,383,775.19
Deposit to State Bond Fund	10,755,273.00	11,689,230.24	22,444,503.24
Underwriters' Discount	293,835.00	148,697.02	442,532.02
Cost of Issuance	121,805.06	101,958.00	223,763.06
Total Uses	$125,049,108.00	$95,323,660.45	$220,372,768.45

FUTURE FINANCINGS

The State anticipates the issuance of the following transactions by the State and State entities within the next six months that are backed by State general fund appropriations:

Pursuant to Minnesota Statutes, Section 462A.37, the Minnesota Housing Finance Agency ("MHFA") received additional authorizations by the 2014 Legislature to issue up to $80,000,000, which the 2017 Legislature increased to $95,000,000 ("2014 MHFA Authorization"), by the 2015 Legislature to issue up to $10,000,000, which the 2017 Legislature increased to $15,000,000 ("2015 MHFA Authorization") and by the 2017 Legislature to issue up to $35,000,000 ("2017 MHFA Authorization") of housing infrastructure bonds that are supported by a state appropriation. MHFA previously issued $80,000,000 of the 2014 MHFA Authorization and $7,290,000 of the 2015 MHFA Authorization. MHFA anticipates issuing up to $15,000,000 of the 2014 MHFA Authorization in October of 2017.

Pursuant to Minnesota Statutes, Section 16A.967, the Commissioner of Management and Budget may sell State Appropriation Bonds to finance up to $22.5 million in project costs for the final phases of the Lewis and Clark Regional Water System project, including completion of a water transmission pipeline in southwest Minnesota. The State anticipates issuing approximately $8 million of these bonds in October of 2017.

See "APPENDIX C - STATE DEBT, CONTINGENT LIABILITIES, and State Continuing Appropriations."

LINE ITEM VETOES AND POSSIBLE SPECIAL LEGISLATIVE SESSION

On August 19, 2014 the State issued its $80,100,000 Certificates of Participation, Series 2014 (Legislative Office Facility Project) (the "Certificates") under an order of the Commissioner of Management and Budget, the proceeds of which were used to design and construct a legislative office facility (the "Facility") and pay certain related fees and expenses, and interest. MMB leased the Facility to the Minnesota Commissioner of Administration ("Administration") under a Lease-Purchase Agreement (the "Lease"), and the Certificates evidence proportionate undivided interests in rights to receive rental payments under the Lease. Administration has entered into a separate lease agreement with the Minnesota Senate (the "Senate Lease") pursuant to which the Senate makes monthly rental payments to Administration to cover the debt service and operating costs of the Facility.

Under the Lease, a "nonappropriation" occurs if (i) the legislature of the State of Minnesota (the "Legislature") fails to appropriate funds in respect of rental payments due under the Lease (or to the Senate under the Senate Lease) in any regular or special session for any biennium sufficient for the continued performance of the Lease for the biennium immediately subsequent to the last biennium for which the Legislature has appropriated sufficient funds for such purpose, (ii) the Legislature repeals of any such appropriation or (iii) there is an unallotment under Minnesota Statutes, Section 16A.152. Upon an event of nonappropriation, Administration, as lessee, has the right to terminate the Lease and the Senate Lease.

On May 25, 2017 the Legislature adjourned the 2017 special legislative session and on May 30, 2017[1] the Governor line-item vetoed the legislative appropriations to the House and the Senate for fiscal years 2018 and 2019. The funding for the Senate Lease was included in Senate appropriation and thus the State had failed to enact legislation appropriating funds necessary to make rental payments due under the Lease for the next biennium, resulting in an event of nonappropration. As of the date of this Official Statement, Administration has not exercised its right to terminate the Lease or the Senate Lease and the Certificates remain outstanding.

On June 13, 2017 the House and Senate filed suit in Ramsey County District Court ("District Court") against Governor Mark Dayton and the Commissioner of MMB (collectively, "Executive Branch"), seeking

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[1] In his May 30, 2017 letter to leaders of the House and Senate, the Governor described the reasons for his line-item vetoes and also explained that he would be willing to call a special legislative session if the Speaker of the House and the Senate Majority Leader agree to remove certain provisions in legislation enacted as a result of the session adjourned on May 25, 2017. A copy of the Governor's letter can be found at https://www.leg.state.mn.us/archive/vetoes/2017_sp1veto_ch4.pdf.

declaratory judgment that the Governor's line-item vetoes of appropriations to the House and Senate for fiscal years 2018 and 2019 violated the separation of powers clause of the Minnesota Constitution, and other forms of relief. The parties subsequently entered into a stipulation requesting the District Court to issue an injunction requiring the Commissioner of MMB to provide temporary continued funding to the House and Senate at the monthly rate of the fiscal year 2017 base general fund appropriation until the completion of appellate review of the declaratory judgment or until October 1, 2017, whichever first occurs. The District Court entered an injunction consistent with the parties' stipulation which required the Senate to continue making rental payments on the Senate Lease during the same period. After the District Court ruled on July 19, 2017 that the Governor's line-item vetoes violated separation of powers, the Executive Branch appealed the District Court's judgment to the Minnesota Supreme Court.

On September 8, 2017, the Minnesota Supreme Court issued an order upholding the constitutionality of the Governor's exercise of his line-item veto power over the appropriation for the House and Senate's biennial budget. The order required "the parties to participate in good-faith efforts to resolve this dispute through mediation" and to "file a joint statement with this court that reports on the status of these efforts" on or before September 30, 2017. The order further directed the parties by September 15, 2017 to provide supplemental information and briefing regarding the "constitutionality of the Judicial Branch ordering funding to the Legislature after June 30, 2017," and "all other judicial remedies." (See "LITIGATION— The Ninetieth Minnesota State Senate and the Ninetieth Minnesota State House of Representatives v. Mark B. Dayton, in his official capacity as Governor of the State of Minnesota, and Myron Frans, in his official capacity as Commissioner of the Minnesota Department of Management and Budget (Minnesota Supreme Court)" herein.) The matter was not resolved through mediation, and the Supreme Court subsequently ordered additional information from the parties regarding the availability of funds to the House and Senate.

Because the Supreme Court issued an order in favor of the Executive Branch, an event of nonappropriation continues to exist under the Lease. However, as a result of the District Court's stipulated injunction, the Senate made monthly rental payments to Administration. Administration currently has sufficient funds on hand to make the next scheduled rental payment under the Lease, which would enable the State to make the next debt service payment on the Certificates on December 1, 2017. Under the Lease, Administration is also allowed to apply to the payment of Lease rental payments any other funds that are legally available to Administration for such purpose. In addition, Minnesota law permits the Senate to use its carryforward funds that may also be available to pay for the Senate Lease.

Restoration of the biennial appropriations to the House and Senate prior to the next regular legislative session would require a special legislative session in order to adopt and enact legislation. The 2018 regular legislative session convenes on February 20, 2018, well prior to the next debt service payment date for the Certificates (June 1, 2018), and at that time, the Legislature could enact legislation, including restoration of the biennial appropriations to the House and Senate. No assurance can be given that a special legislative session will convene, or that in the event of a special legislative session or during the 2018 regular legislative session, legislation restoring the biennial appropriations to the House and Senate would actually be considered, that other legislation might not also be introduced, or that any proposed legislation considered during such special or regular legislative session would actually be approved by the legislature or signed or vetoed by the Governor. Further, no assurance can be given that there will be sufficient funds available to pay interest and principal due on the Certificates on any subsequent debt service payment date.

BOOK ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity for each series of the Bonds in the aggregate principal amount thereof and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing

agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust` companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Direct Participants and Indirect Participants (collectively, the "Participants") are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is, in turn, to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar of the Bonds ("Registrar") and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, redemption price and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct

Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or its nominee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Registrar's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The above information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the completeness or the accuracy thereof, or as to the absence of material adverse changes in such information subsequent to the date hereof.

The State cannot and does not give any assurances that DTC, or a successor securities depository, or Participants will distribute to the Beneficial Owners of the Bonds: (i) payments of principal of or interest and premium, if any, on the Bonds; (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in the Bonds; or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, or a successor securities depository, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC or the Participants will serve and act in the manner described in this Official Statement.

The State will have no responsibility or obligation to any Participant, or any Beneficial Owner or any other person with respect to: (i) the Bonds; (ii) the accuracy of any records maintained by DTC, or a successor securities depository, or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds; (iii) the payment by DTC, or a successor securities depository, or any Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds; (iv) the delivery by DTC, or a successor securities depository, or any Participant of any notice to any Beneficial Owner which is required or permitted to be given to owners of the Bonds; (v) the selection of which Beneficial Owners will receive payment in the event of any partial redemption of the Bonds; (vi) any consent given or other action taken by DTC, or a successor securities depository as a Bondholder; or, (vii) the performance by DTC, or any successor securities depository, of any other duties as securities depository.

TAX MATTERS

The Tax-Exempt Bonds

General. In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the Bonds, under existing federal and Minnesota laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants described below, the interest to be paid on the Series 2017A Bonds, the Series 2017B Bonds, the Series

2017D Bonds and the Series 2017E Bonds (collectively, the "Tax-Exempt Bonds") is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. The interest to be paid on the Tax-Exempt Bonds is included in adjusted current earnings of corporations in determining the alternative minimum taxable income of such corporations for purposes of the federal alternative minimum tax.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend on such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

Arbitrage/Use of Proceeds. Failure to comply with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), may cause interest on the Tax-Exempt Bonds to become subject to federal and Minnesota income taxation retroactive to the date of issuance of the Tax-Exempt Bonds. These provisions include investment restrictions, required periodic payments of arbitrage profits to the United States, and requirements concerning the timely and proper use of Tax-Exempt Bond proceeds and the facilities and activities financed or refinanced therewith and certain other matters. The documents authorizing the issuance of the Tax-Exempt Bonds include provisions which, if complied with by the State, are designed to meet the requirements of the Code. Such documents also include a covenant of the Commissioner to take all legally permissible actions necessary to preserve the tax exemption of interest on the Tax-Exempt Bonds. However, no provision is made for redemption of the Tax-Exempt Bonds or for an increase in the interest rate on the Tax-Exempt Bonds in the event that interest on the Tax-Exempt Bonds becomes subject to federal or Minnesota income taxation.

Discount Bonds. The Series 2017B Bonds having a stated maturity in the years 2029 and 2034 through 2037 (the "Discount Bonds") are being sold at a discount from the principal amount payable on the Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under Section 1288 of the Code is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes to the same extent that stated interest on such Discount Bonds would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under Section 1288 is added to the tax basis of the owner in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under Section 1288 pursuant to a constant yield method that reflects semiannual compounding on days that are determined by reference to the maturity date of the applicable Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of: (1) the product of (a) one-half of the yield to maturity on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable on such Discount Bond for such semiannual accrual period. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Discount Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that

semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Discount Bond.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount.

Purchasers of Discount Bonds should consult their own tax advisors with respect to computation and accrual of original issue discount and with respect to the state and local tax consequences of owning and selling such Discount Bonds.

Premium Bonds. All maturities of the Series 2017A Bonds, the Series 2017B Bonds having a stated maturity in the years 2018 through 2028 and 2030 through 2032, all maturities of the Series 2017D Bonds and all maturities of the Series 2017E Bonds (the "Premium Bonds"), are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire Premium Bonds must, from time to time, reduce their federal and Minnesota tax bases for the Premium Bonds for purposes of determining gain or loss on the sale, redemption or payment at maturity of such Premium Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Bondholders who acquire Premium Bonds might recognize taxable gain upon sale of such Premium Bonds, even if such Premium Bonds are sold for an amount equal to or less than their original cost. The amount of premium amortized in any period offsets a corresponding amount of interest for such period. Amortized premium is not deductible for federal or Minnesota income tax purposes. Purchasers of Premium Bonds should consult their own tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling such Premium Bonds.

Collateral Tax Matters. The following tax provisions also may be applicable to the Bonds and interest thereon:

(1) Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and Railroad Retirement benefits to take into account interest on the Tax-Exempt Bonds in determining the taxability of such benefits;

(2) passive investment income, including interest on the Tax-Exempt Bonds, may be subject to taxation under Section 1375 of the Code and corresponding provisions of Minnesota law for an S corporation that has accumulated earnings and profits at the close of the taxable year if more than 25 percent of its gross receipts is passive investment income;

(3) interest on the Tax-Exempt Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code;

(4) in the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Tax-Exempt Bonds that is received or accrued during the taxable year;

(5) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Tax-Exempt Bonds, and Minnesota law similarly denies a deduction for such interest expense in the case of individuals, estates and trusts; indebtedness may be allocated to the Tax-Exempt Bonds for this purpose even though not directly traceable to the purchase of the Tax-Exempt Bonds;

(6) federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Tax-Exempt Bonds;

(7) in the case of a financial institution, no deduction is allowed under the Code for that portion of the holder's interest expense which is allocable to interest on the Tax-Exempt Bonds within the meaning of Section 265(b) of the Code; and

(8) receipt of interest on the Tax-Exempt Bonds may affect taxpayers otherwise entitled to claim the earned income credit under Section 32 of the Code.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership, disposition, or receipt of interest on the Tax-Exempt Bonds. Prospective purchasers or bondholders should consult their tax advisors with respect to collateral tax consequences and applicable state and local tax rules in states other than Minnesota.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Tax-Exempt Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

The Taxable Bonds

General. The interest on the Series 2017C Bonds is included in gross income for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. Purchasers of the Series 2017C Bonds should consult their own tax advisors as to the federal, state or local tax consequences of purchasing, owning or selling the Series 2017C Bonds.

Backup Withholding. Certain purchasers may be subject to backup withholding at the application rate determined by statute with respect to interest paid with respect to the Series 2017C Bonds if the purchasers, upon issuance, fail to supply their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide a certified statement, under penalty of perjury, that they are not subject to backup withholding.

Changes in Federal and State Tax Law

From time-to-time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time-to-time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LEGAL OPINIONS

Legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Kutak Rock LLP, Bond Counsel, and the State Attorney General. Kutak Rock LLP will offer an opinion as to tax status of interest on the Bonds. The forms of legal opinions to be issued by Kutak Rock LLP with respect to the Bonds are set forth in APPENDIX H.

FINANCIAL INFORMATION

General financial information relating to the State is set forth in the Official Statement, Appendices A through F, and is a part of this Official Statement. Selected statements from the State's most recent audited financial statements are included as APPENDIX F.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the State, overtly threatened any litigation against the State seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any manner questioning or affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

While at any given time, including the present, there are numerous civil actions pending against the State, that could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 19 to the State Financial Statements for Fiscal Year Ended June 30, 2016, included as APPENDIX F hereto, and additional actions, if any, discussed below, no pending actions are likely to have a material adverse effect in excess of $15 million on the State's expenditures or revenues during the current biennium.

The following is a discussion of developments regarding the actions described in referenced Note 19 that have occurred and are subsequent to the date of the financial statements included in APPENDIX F hereto, and a description of additional actions which have been initiated against the State since the date of the financial statements included in APPENDIX F and are material for purposes of this Official Statement.

Foster v. State of Minnesota, et. al. (Eighth Circuit Court of Appeals). The district court dismissed the case, and Plaintiff appealed to the Eighth Circuit, where the case has been briefed but not yet argued.

Guggenberger, et al. v. State, et al. and Gordon, et al. v. DHS, et al. (United States District Court, District of Minnesota). *Guggenberger, et. al. v. State, et. al.* has now been renamed as *Mikkelson et. al. v State, et. al.*and *Gordon, et al. v. DHS, et al.* is now *Murphy et al. v. DHS, et al.*. A class certification motion is pending in *Mikkelson*. In *Murphy*, Defendants motion to dismiss was denied, and a class certification motion is pending. Although the exact relief the class seeks is unclear, at a minimum they contend DHS over relies on Community Residential Settings and must facilitate individualized housing and other services for each waiver recipient.

Hall v. State (Minnesota Supreme Court). The court of appeals held that MUPA is constitutional and reversed the district court's legal conclusions. The case is now pending at the Minnesota Supreme Court. The case has been briefed, but not yet argued.

H.B. Fuller Co. and Subsidiaries v. Commissioner of Revenue, and other similar matters (Minnesota Tax Court and Second Judicial District Court – Ramsey County). Several other cases raising the same issue have since been filed in the Minnesota Tax Court and in state district court, including a $33 million dollar claim by IBM. All of the cases are scheduled for briefing due in February 2018 with hearings scheduled in the tax court at a date to be determined. The Department of Revenue estimates that if similarly situated taxpayers make similar claims, the total refund exposure may exceed $140 million.

Hospital Surcharge Litigation (Minnesota Supreme Court). The deadline to petition the United States Supreme Court passed, and claims related to FEHBA/TRICARE were dismissed, or will be dismissed.

Kimberly-Clark Corporation & Subsidiaries v. Commissioner of Revenue (U.S. Supreme Court). The petition was denied on December 12, 2016. All cases raising similar issues have been dismissed.

Ligons, et al. v. Minnesota Department of Corrections, et al. (U.S. Dist. Ct., Minnesota). Two inmates filed a lawsuit seeking treatment for inmates with a Hepatitis C infection (HCV). The state defendants moved for summary judgment on all claims in March 2017. In April 2017, the two named plaintiffs filed their motion seeking to certify classes of Minnesota inmates. One class is framed as consisting of inmates in Minnesota prisons who are infected with HCV and who wish to receive treatment with direct-acting antiviral medication. The state defendants filed their memorandum opposing class certification in June 2017. The

summary judgment motion and class certification motion were argued on July 26, 2017 and are currently being held in abeyance.

McLane Minnesota, Inc. v. Commissioner of Revenue (Minnesota Tax Court). Orders for dismissal were received on November 29, 2016.

Minnesota Energy Resources Corp. (MERC) v. Commissioner of Revenue (Minnesota Tax Court). MERC has now filed separate appeals for 2015 and 2016, which have been stayed along with the 2013 and 2014 separate appeals. On April 17, 2017, the Tax Court issued its order, which did not change the refund amount. MERC has filed another appeal in the Minnesota Supreme Court for the 2008 through 2012 case.

The Ninetieth Minnesota State Senate and the Ninetieth Minnesota State House of Representatives v. Mark B. Dayton, in his official capacity as Governor of the State of Minnesota, and Myron Frans, in his official capacity as Commissioner of the Minnesota Department of Management and Budget (Minnesota Supreme Court). The Ninetieth Minnesota State Senate ("Senate") and Ninetieth Minnesota State House ("House") filed suit in Ramsey County District Court ("District Court") against Governor Mark Dayton and Myron Frans, the Commissioner of MMB (collectively, "Executive Branch"), seeking declaratory judgment that Governor Dayton's line-item vetoes of appropriations to the Senate and House for Fiscal Years 2018 and 2019 violated the separation of powers clause of the Minnesota Constitution. The Senate and House also sought injunctive relief and a writ of mandamus compelling Commissioner Frans to provide funds for the core functions of the Senate and House. The Executive Branch filed a motion for judgment on the pleadings, requesting the court to dismiss the request for declaratory judgment on the grounds that the line-item vetoes are expressly authorized by the Minnesota Constitution. The parties also entered into a stipulation requesting the court to issue an injunction requiring Commissioner Frans to provide continuing funding to the Senate and House at the monthly rate of the Fiscal Year 2017 base general fund appropriation until all appellate review of the declaratory judgment has been completed or until October 1, 2017, whichever occurs first. The district court entered an injunction consistent with the parties' stipulation. On July 19, 2017, the District Court denied the Executive Branch's motion for judgment on the pleadings and granted declaratory judgment to the Senate and House, ruling that Governor Dayton's line-item vetoes violated separation of powers. On July 31, 2017, the District Court issued a second stipulated injunction clarifying the level of funding to the Senate and House pending the appeal process. The Executive Branch appealed the District Court's judgment to the Minnesota Supreme Court. On September 8, 2017, the Minnesota Supreme Court issued an order upholding the constitutionality of the Governor's exercise of his line-item veto power over the appropriation for the Legislature's biennial budget. The order further directed the parties to provide supplemental information and briefing by September 15, 2017, and participate in good faith efforts to resolve the matter through mediation and file a joint statement on the status of those efforts on or before September 30, 2017. The matter was not resolved through mediation, and the Supreme Court subsequently ordered additional information from the parties regarding the availability of funds to the House and Senate.

Walgreens Specialty Pharmacy v. Commissioner of Revenue (Minnesota Tax Court). Since its initial appeal, Appellant has since dropped the argument that the use tax is preempted by federal law. Dispositive motions have been filed and were heard on July 14, and the motions have been taken under advisement. The Department of Revenue estimates that if similarly-situated taxpayers successfully brought refund claims, the total refund exposure would exceed $84 million

CONTINUING DISCLOSURE

The Commissioner, in the order authorizing and ordering the issuance of the Bonds, has covenanted and agreed on behalf of the State, for the benefit of the holders of the Bonds from time to time, to comply with the provisions of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5) as currently in effect; and, for this purpose, to provide to the Municipal Securities Rulemaking Board annual financial information of the type included in this Official Statement, including audited financial statements, and notice of the occurrence of certain events which materially affect the terms, payment, security, rating or tax status of the Bonds. The State is the only "obligated person" in respect of the Bonds within the meaning of paragraph (b)(5). A description of the Commissioner's undertaking is set forth in APPENDIX G.

The State did not timely file its Comprehensive Annual Financial Report ("CAFR") with EMMA for the fiscal year ending June 30, 2012 (the "2012 CAFR"). Under the terms of the continuing disclosure undertaking for each series of bonds for which the State is an obligated person, such filing was supposed to be made by December 31, 2012. Although the State did not timely file its 2012 CAFR, the State did notify holders of all general obligation bonds and all bonds supported by State appropriations, by a voluntary filing to EMMA on December 7, 2012, that the 2012 CAFR would be delayed. On December 28, 2012, the State filed a notice of failure to file annual financial information with respect to all general obligation bonds and all bonds supported by State appropriations. On February 13, 2013, the State updated its voluntary December 7, 2012 EMMA filing to notify investors that the estimated date of delivery the 2012 CAFR would be mid-March 2013. The 2012 CAFR was filed with EMMA on March 27, 2013. The filing of the 2012 CAFR was primarily delayed due to the implementation of a new State accounting and procurement software system. The State completed the posting of its 2013 through 2016 CAFR in a timely manner, and expects, in the future, to continue completing its annual CAFR and EMMA filings on or before December 31 of each year.

Prior to July, 2009, the State filed through Disclosure USA or by sending appropriate documents through mail or other courier services and thereafter on EMMA. The State did not timely file notices of ratings changes or the State's CAFR for the fiscal years ended June 30, 2007 through 2012 with respect to the following bonds, for which the State was an "obligated person" within the meaning of Rule 15c2-12: (i) the $31,165,000 Port Authority of the City of Saint Paul, Lease Revenue Bonds, Series 2002-10; (ii) the $79,665,000 Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2003-12; (iii) the $23,695,000 Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2002-9; (iv) the $58,580,000 Port Authority of the City of Saint Paul Lease Revenue Bonds, Series 2003-11 Bonds, (collectively, the "St. Paul Bonds"); (v) the $6,395,000 City of Bemidji Lease Revenue Refunding Bonds, Series 2008 (the "2008 Bonds"); and (vi) the $8,275,000 City of Bemidji Lease Revenue Bonds dated April 1, 2000 (the "2000 Bonds"). On January 9, 2013, the State filed its CAFRs for the fiscal years ended June 30, 2007 through 2011 for the St. Paul Bonds with EMMA, and on March 27, 2013 filed its 2012 CAFR. On February 6, 2013, the State also made a detailed filing of the rating history by each rating agency that publishes a rating for the St. Paul Bonds, with respect to all previous rating changes for each series of the St. Paul Bonds. On January 9, 2013 the State filed its CAFRs for the fiscal years ended June 30, 2007 through 2009 for the 2000 Bonds. The 2000 Bonds were fully refunded in October 2008. The State filed notice of a 2003 rating change on the 2000 Bonds in July 2014. On January 9, 2013, the State filed its CAFRs for the 2008 Bonds for the fiscal years ended June 30, 2007 through 2011 with EMMA, and on March 27, 2013 filed its 2012 CAFR.

The State did not timely file certain required notices of rating changes for the insurance entities and underlying ratings related to the following bonds: (i) the $35,000,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2006, insured by MBIA; (ii) the $42,205,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2008, insured by Assured Guaranty; (iii) the $60,510,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2009, insured by Assured Guaranty; and (iv) the $345,000,000 State of Minnesota General Obligation State Bonds dated August 1, 2006, in which the August 1, 2026 maturity, $14,585,000, is insured by MBIA. The State has posted on EMMA the appropriate notices of Material Events.

The State did not timely file certain CAFR and Operating data ("Financials") for the (i) $35,000,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2006 (2006 Financials show as filed on January 9, 2007, 2007 Financials show as filed on January 16, 2008, 2008 Financials show as filed on February 9, 2009, 2010 Financials posted on EMMA on March 11, 2011); (ii) $42,205,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2008 (2008 Financials show as filed on February 9, 2009, 2010 Financials show as filed on EMMA on March 11, 2011); (iii) $557,960,000 State of Minnesota General Obligation Bonds Series 2005 (2005 Financials show as filed on January 25, 2006, 2006 Financials show as filed on January 9, 2007, 2007 Financials show as filed on January 16, 2008, 2008 Financials show as filed on February 9, 2009); and (iv) $345,000,000 State of Minnesota General Obligation Bonds Series 2006 (2006 Financials show as filed on

January 9, 2007, 2007 Financials show as filed on January 16, 2008, 2008 Financials show as filed February 9, 2009).

The State filed operating data for all of the State's general obligation bonds and bonds supported by State appropriations for the fiscal year ending June 30, 2012 as required by December 31, 2012 (though, as described in the second paragraph under this heading, the filing of the CAFR for the same fiscal year was delayed). In September 2017 it came to the State's attention that, because a then-current Official Statement related to the State's appropriation debt was attached to the CUSIP numbers for the State's general obligation bonds and bonds supported by State appropriations, rather than a then-current Official Statement related to the State's general obligation bonds, certain financial information and operating data of the State may not have been included in the State's annual filing for fiscal year 2012. During September of 2017 the State posted a voluntary filing on EMMA attaching, for fiscal year 2012, the Official Statement for its general obligation bonds issued during 2012 to the CUSIP numbers for all of the State's general obligation bonds and bonds supported by State appropriations.

In November of 2014, the State submitted a report to the Securities and Exchange Commission (the "SEC") in response to its Municipal Continuing Disclosure Cooperation Initiative (the "MCDC"). The MCDC provided an opportunity for underwriters and municipal issuers to self-report instances where official statements of municipal issuers failed to report instances in which the municipal issuer failed to comply with its continuing disclosure undertakings.

On August 24, 2016, the SEC issued a Cease-and-Desist Order (the "Order") pursuant to which the State has undertaken the following:

a. Within 180 days of the entry of the Order, establish appropriate written policies and procedures and periodic training regarding continuing disclosure obligations to effect compliance with the federal securities laws, including the designation of an individual or officer at the State responsible for ensuring compliance by the State with such policies and procedures and responsible for implementing and maintaining a record (including attendance) of such training.

b. Within 180 days of the entry of the Order, comply with existing continuing disclosure undertakings, including updating past delinquent filings if the State is not currently in compliance with its continuing disclosure obligations.

c. Disclose in a clear and conspicuous fashion the terms of the Order in any final official statement for an offering by the State within five years of the entry of the Order.

d. Certify, in writing, compliance with the undertakings set forth above.

e. Cooperate with any subsequent investigation by the SEC's Division of Enforcement regarding the false statement(s) and/or material omission(s), including the roles of individuals and/or other parties involved.

Prior to the entry of the Order, the State (i) established written policies and procedures to improve compliance with continuing disclosure obligations, including the designation of an individual responsible for ensuring compliance with such policies and procedures, and (ii) implemented a review of past filings to ensure compliance with existing continuing disclosure undertakings and updated past delinquent filings in the final official statement, dated August 5, 2015, for the State's $1,076,980,000 State of Minnesota, General Obligation Bonds, Series 2015A-E. On August 11, 2017, the State certified compliance with the Order to the SEC.

MUNICIPAL ADVISOR

Public Resources Advisory Group, New York, New York, is serving as Municipal Advisor to the State in connection with the issuance of the Bonds. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Municipal Advisor is not obligated to undertake to make an independent verification of, or to

assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the arithmetical computations of the adequacy of maturing amounts of principal and interest on the obligations placed in escrow to pay, when due, the principal of, premium, if any, and the interest on the Bonds to be Refunded will be verified by Grant Thornton LLP.

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Series 2017A Bonds at public sale to Citigroup Global Markets Inc., as Series 2017A Underwriter, for a price of $373,502,488.25, with the Series 2017A Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2017B Bonds at public sale to Wells Fargo Bank, National Association, as Series 2017B Underwriter, for a price of $124,755,273.00, with the Series 2017B Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2017C Bonds at public sale to Wells Fargo Bank, National Association , as Series 2017C Underwriter, for a price of $27,001,080.00, with the Series 2017C Bonds to bear interest at the rate set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2017D Bonds at sale to Bank of America Merrill Lynch, as Series 2017D Underwriter, for a price of $380,227,895.04, with the Series 2017D Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2017E Bonds at sale to Bank of America Merrill Lynch, as Series 2017E Underwriter, for a price of $92,794,475.93, with the Series 2017E Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

Citigroup Global Markets Inc., Wells Fargo Bank, National Association and Bank of America Merrill Lynch, collectively are referred to as the Underwriters, herein.

RATINGS

The Bonds described herein have been rated “AAA” by Fitch Ratings, “Aa1” by Moody’s Investors Service Inc. and “AA+” by Standard and Poor’s Ratings Group. The ratings reflect only the views of these services. These bond ratings are subject to change or withdrawal by the rating agencies at any time. Therefore, after the date hereof investors should not assume that such ratings are still in effect. A revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

AUTHORIZATION OF OFFICIAL STATEMENT

The State has prepared and delivered this Official Statement to the Underwriters of the Bonds and has authorized the Underwriters to use it in connection with the offering and sale of the Bonds to investors.

/s/ Myron Frans
Commissioner of Management and Budget
State of Minnesota

APPENDIX A

STATE GOVERNMENT AND FISCAL ADMINISTRATION

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APPENDIX A

STATE GOVERNMENT AND FISCAL ADMINISTRATION

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STATE GOVERNMENT AND FISCAL ADMINISTRATION

State Government

The State was formally organized as a territory in 1849 and was admitted to the Union on May 11, 1858, as the 32nd state. Bordered by Canada on the north, Lake Superior and Wisconsin on the east, Iowa on the south, and North and South Dakota on the west, it is the 12th largest and 21st most populous state in the Union.

The State's Constitution organizes State government into three branches: Executive, Legislative and Judicial.

The Executive Branch is headed by the Governor. The Governor, Lieutenant Governor, Attorney General, State Auditor, and Secretary of State are popularly elected to four year terms. There are 18 departments and over one hundred agencies, boards, councils, and authorities which comprise the Executive Branch. Most departments and agency heads are appointed and serve at the pleasure of the Governor, subject to confirmation by the Senate.

The Department of Minnesota Management and Budget ("Management and Budget" or "MMB") was formed in 2008 upon the merger of the departments of Finance and Employee Relations, which had been in existence since 1973 and 1981, respectively.

The Legislative Branch is composed of a Senate and a House of Representatives. There are 67 senators who serve four year terms and there are 134 house members that serve two year terms.

The Judicial Branch is headed by a Supreme Court. Three levels of courts function within the Judicial Branch: Supreme Court, Appellate Court, and District Courts.

Fiscal Administration

The Commissioner of MMB is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. The Commissioner is also responsible for human resource management, employee insurance and collective bargaining on behalf of the State as an employer. Included in the financial duties of the Commissioner of Management and Budget are:

- Preparation of State biennial budget and capital budget.
- Maintenance of general books of account and administration of the statewide accounting system including a central disbursement system.
- Administration of the State payroll system.
- Sale and issuance of State general obligation bonds, certain revenue bonds and certain State appropriation bonds, general obligation certificates of indebtedness, certificates of participation and equipment lease purchase financings.
- Preparation of periodic and special reports on the financial affairs of the State.
- Operation and control of allotment system (annual agency operating budgets).
- Preparation of revenue, expenditure and cash flow estimates.
- Banking and cash management activities.
- To receive and account for all moneys paid into the State treasury to ensure they are properly disbursed or invested.
- Negotiation and administration of bargaining agreements and compensation plans.
- Development and management of employee, retiree and dependent insurance benefits.

Accounting System

State law requires the Commissioner of Management and Budget to maintain an accounting system that shows at all times, by funds and items, amounts appropriated and estimated revenues therefore; amounts allotted and available for expenditure; amounts of obligations authorized to be incurred; actual receipts, disbursements; balances on hand; and unencumbered balances after deduction of all actual and authorized expenditures.

State law requires the Commissioner of Management and Budget to administer the payroll of all employees of the executive branch of government.

The accounting system is organized on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Funds are established for the purpose of carrying on specific activities or objectives in accordance with legal requirements.

Financial Reporting

State law requires the Commissioner of Management and Budget to prepare a comprehensive financial report for each fiscal year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the Fiscal Year 2016 basic financial statements are presented in APPENDIX F and general long-term debt unaudited schedules are presented in APPENDIX C. The State implemented Governmental Accounting Standards Board ("GASB") Statement 67 – Financial Reporting for Pensions in Fiscal Year 2014 and implemented GASB Statement 68 – Accounting and Financial Reporting for Pensions in Fiscal Year 2015.

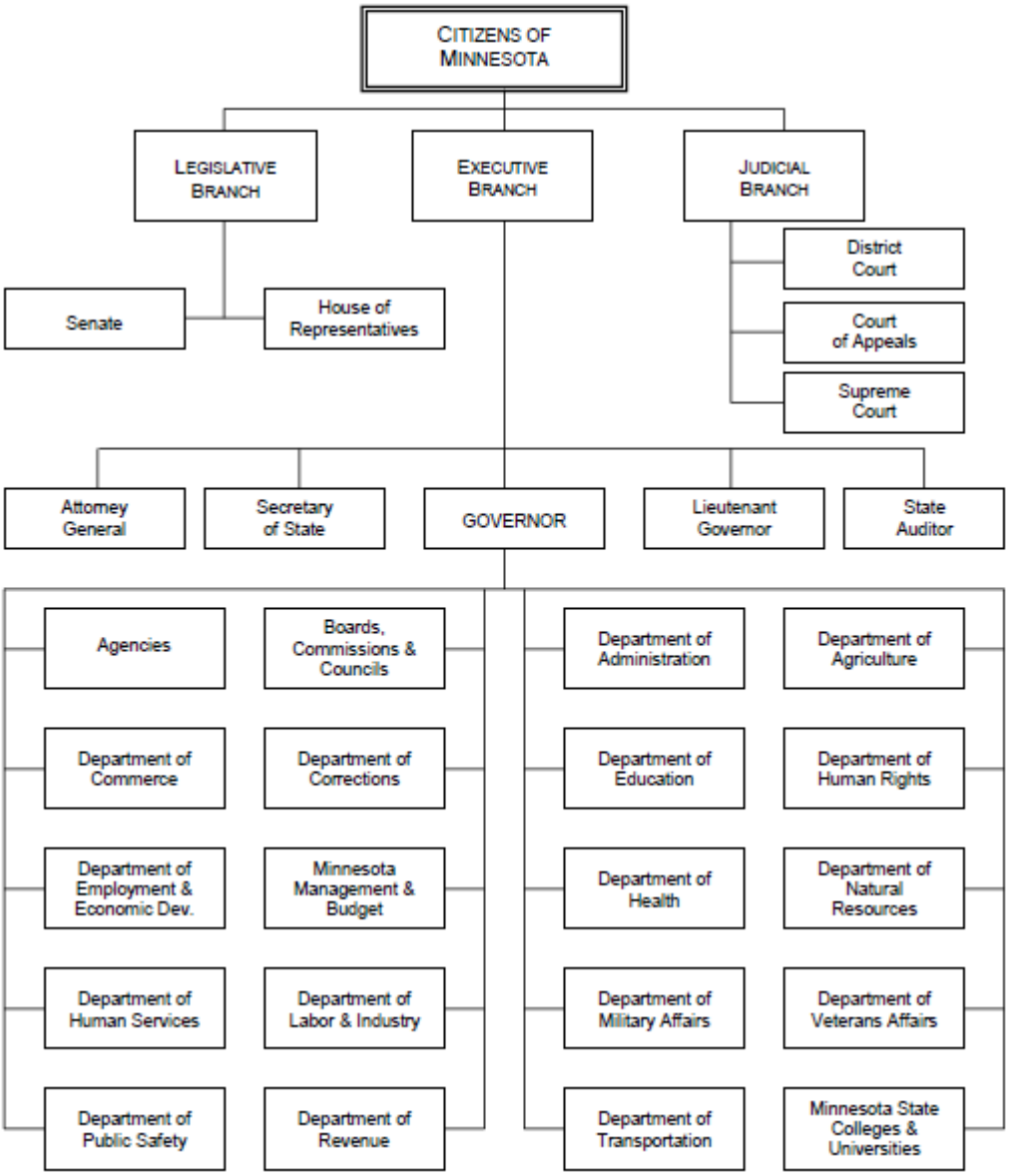
Investments

The State Board of Investment, comprised of four of the State's constitutional officers, is responsible for the formulation of State investment policies and for the purchase and sale of securities. Moneys from various funds are invested according to regulations on types and terms of investments imposed by law on each grouping. The investments are grouped as follows:

- Invested Treasury Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the State constitution, State law, or by federal law.
- Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.
- Various retirement funds — investment of assets and reserves.
- Trust Funds — investment of assets and reserves.
- Other departmental funds.

See "APPENDIX B – MINNESOTA DEFINED BENEFIT PENSION PLANS", for information on the investment of State sponsored pension plans and retirement funds.

A general organization chart of the State government is shown below. This diagram displays the various categories of the State's service functions and the organization units associated with the delivery of the service activities.



Revenues

The Department of Revenue exercises general supervision over the administration of the taxation and assessment laws of the State. In the exercise of such power, the Department of Revenue promulgates guidelines to ensure that property tax laws are administered uniformly by local governmental units and that the assessments of property are made on an equal basis throughout the State.

The Department of Revenue administers taxes due to the State by collecting, among others, individual income and corporation taxes, sales and use taxes, estate taxes, motor fuel taxes and excise taxes on liquor and tobacco. Additionally, the Department of Revenue is responsible for informing localities when their expenditures exceed the limit set for them by the State Legislature.

Audit Control Procedures

The Office of the Legislative Auditor is the post audit agency of all State departments, agencies, boards and commissions. The Office of the Legislative Auditor conducts the audits of all accounts, records, inventories, vouchers, receipts, funds, securities, and other assets at least once a year, if funds and personnel permit, and more often if deemed necessary or as directed by the Legislature or the Legislative Audit Commission. As an agency of the legislative branch, the Office of the Legislative Auditor is independent of the executive branch and the departments, boards, commissions and other agencies thereof that it is responsible for auditing.

Status of Collective Bargaining and Compensation Plans

The State has a total of 16 bargaining units for State employees, including three faculty bargaining units whose labor contracts are negotiated and maintained by the Minnesota State Colleges and Universities System ("Minnesota State"). Each odd-numbered year, the MMB negotiates the terms and conditions of employment with the seven exclusive representatives for employees covered by one of the 13 non-faculty labor agreements for executive branch State employees. The Department also reviews compensation plans for employees not represented by a union. All contracts and compensation plans are subject to review and approval by the Legislature. The following is a summary that shows the number of employees assigned to State bargaining units.

INFORMATION ON STATE BARGAINING UNITS

Unit	Employees as of July 2017
American Federation of State, County and Municipal Employees (AFSCME) (7 bargaining units)	17,050
MN Association of Professional Employees (MAPE)	14,200
Middle Management Association (MMA)	3,090
MN Government Engineers Council (MGEC)	1,050
MN Nurses Association (MNA)	770
MN Law Enforcement Association (MLEA)	770
State Residential Schools Education Association (SRSEA)	180
State College Faculty Association (MSCF)	3,760
State University Interfaculty Organization (IFO)	2,620
State University Admin and Service Faculty (MSUAF)	790
Total Represented Employees	44,280
Total State Employment	49,610
Percent of All Executive Branch Employees Unionized	89%

Previous Biennium Labor Agreements for all bargaining units expired on June 30, 2017. By statute, these contracts remain in effect until subsequent agreements are reached or contracts are cancelled when the right to strike matures. As of the date of this Official Statement, the State has reached tentative agreements with all AFSCME bargaining units as well as with MAPE and MMA. Minnesota State has commenced bargaining with the faculty unions; MSUAF, MSCF, and IFO. The State will commence bargaining with MNA, SRSEA, MGEC and MLEA in September 2017.

APPENDIX B

STATE FINANCES

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APPENDIX B

STATE FINANCES

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This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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STATE FINANCES

FINANCIAL STATEMENTS

The basic financial statements for the State for the Fiscal Year ended June 30, 2016, are included herein as APPENDIX F. These financial statements provide financial information for the State's General Fund, as defined by generally accepted accounting principles, as set forth in the audited financial statements included in APPENDIX F and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise funds, which includes the Debt Service Fund. These financial statements have been examined by the Legislative Auditor, independent auditor for the State to the extent indicated in his report included in APPENDIX F. The Legislative Auditor's report and the financial statements, including the Notes, should be read in their entirety. Such financial statements have been included in APPENDIX F in reliance upon the report of the Legislative Auditor. The revenues and expenditures presented consistent with Generally Accepted Accounting Principles for Fiscal Years 2014 through 2016 are summarized on page B-6.

Past Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2016 and prior years are available at www.mn.gov/mmb/accounting/reports/.

FINANCIAL INFORMATION

Budgeting Process

Major operating budget appropriations for each biennium are enacted during the final legislative session of the immediately preceding biennium (i.e. in odd-numbered calendar years). Supplemental appropriations and changes in revenue and expenditure measures are usually adopted during legislative sessions in even-numbered calendar years.

The Minnesota constitution limits the number of days that the Minnesota Legislature (the "Legislature") may meet to a maximum of 120 days during a biennium. The number of days may be split between the two years in a biennium, provided that the Legislature may not meet in a regular session after the first Monday following the third Saturday in May of any year. The regular sessions of the Legislature are scheduled for and occur between January 2 and the first Monday following the third Saturday in May of each year. Special sessions may be called by the Governor.

Revenue and expenditure forecasts are performed in February and November of each calendar year. See "REVENUE AND EXPENDITURE FORECASTING" later in this APPENDIX B. Forecasts are performed for the then current biennium and for next succeeding biennium. Based upon the results of these forecasts, the Governor may recommend revenue and expenditure changes that are then recommended to the Legislature. In addition, the Legislature may, also based on these forecasts, approve budget changes.

The February and November forecasts for the biennium during which the forecasts are made are used to evaluate if the State is on track to finish that biennium with a balanced budget, and may be used by the Governor and the Legislature to revise the budget for that biennium.

The November forecast in even-numbered years for the next succeeding biennium becomes the basis for the Governor's budget recommendations for that biennium. All subsequent February and November forecasts for that biennium supplement and revise the original even-numbered year November forecast with more current data, and the Governor may use these forecasts to submit modifications to the budget that was developed from the original even-numbered year November forecast.

General Fund

The General Fund includes all financial resources except those required to be accounted for in another fund.

Revenues, expenditures, transfers and fund balance information in budgetary fund statements may differ from those in the State's Generally Accepted Accounting Principles ("GAAP") based Comprehensive Annual Financial Report ("CAFR") (see APPENDIX F) for three primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. In the modified accrual basis used in the CAFR, expenditures are recognized when goods or services are received regardless of the year encumbered. Second, on a budgetary basis, encumbrances are recognized as expenditures in the year encumbered. Third, as a result of implementing GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", several funds are included in the GAAP fund balance, which are not included in the budgetary fund balance, as these funds are not appropriated funds with legislatively enacted budgets. The budgetary fund statements do not represent the State's official financial report, but rather are prepared as a supplement to the budget documents.

Cash Flow Account

The cash flow account (the "Cash Flow Account") was established in the General Fund for the purpose of providing sufficient cash balances to cover monthly revenue and expenditure imbalances. The amount and use of funds in the Cash Flow Account is governed by statute.

Budget Reserve Account

A budget reserve account (the "Budget Reserve Account") was established in the General Fund, as a special account (separate from the Cash Flow Account) that serves as a savings account to be used to offset budget shortfalls during economic downturns. Funds in the Budget Reserve Account may be spent in the event that projected General Fund receipts will be less than forecast, and the amount of resources available for the remainder of the biennium will be less than needed to cover authorized spending. Funds in the Budget Reserve Account may be used, after consultation with the Legislative Advisory Commission, to the extent needed to balance expenditures with revenues. The amount and use of funds from the Budget Reserve Account and its replenishment are governed by statute. Minnesota Statutes Section 16A.152 directs MMB to allocate funds to the Budget Reserve Account as part of the November budget forecast when the balance in the Budget Reserve Account is below the level recommended to adequately manage the volatility of the General Fund tax structure. If the Budget Reserve Accounts level is below the target and there is a positive forecast balance in the current biennium, up to thirty-three percent of the forecast balance is allocated to the Budget Reserve Account until the target level is reached. See "BIENNIUM BUDGETS, End of 2017 Legislative Sessions – Current Biennium, Reserves" below.

Stadium General Reserve Account

A stadium general reserve account (the "Stadium Reserve Account") was established in the General Fund by the 2012 Legislature pursuant to Minnesota Laws 2012, Chapter 299 ("Stadium Legislation"). Available revenues as defined in the Stadium Legislation (including certain excise taxes and gambling revenues) are deposited in the Stadium Reserve Account pursuant to Minnesota Statutes, Section 297E.021, subdivision 2. In the 2013 Legislative Session, as part of the cigarette and tobacco products tax increase, the Legislature provided a one-time deposit of the cigarette floor stocks tax (up to $26.5 million) into the Stadium Reserve Account. Amounts in the Stadium Reserve Account are appropriated as necessary for application against any shortfall in the amounts deposited to the General Fund under Minnesota Statutes, Section 297A.994. After consultation with the Legislative Commission on Planning and Fiscal Policy amounts in the Stadium Reserve Account are also available for other uses related to the professional football stadium authorized under Minnesota Statutes Chapter 473J.

Control Procedures

Dollar Control: Expenditures in excess of legislative appropriations are prohibited by law. In order to prevent spending in excess of appropriations, MMB requires State agencies to identify their appropriations and establish them in the State's accounting system as the limit on spending. The accounting system will reject transactions that exceed these limits. This control procedure is designed to prevent agencies from spending from unauthorized sources of funds.

Allotment and Encumbrance Control: Before money can be disbursed pursuant to an appropriation, it must first be allotted (administratively allocated and approved for expenditure). Prior to each fiscal year, MMB allots the

applicable State agency appropriations based on legislatively-enacted budgets. An allotment is a subdivision of an appropriation into smaller, detailed components used by agencies to budget expenditures by category of expenditure. The accounting system prevents allotments from exceeding appropriations.

Once allotments have been established, but before spending obligations can be incurred, for most purchases agencies must establish encumbrances against their allotments. Encumbrances are the accounting control device agencies use for reserving portions of their allotments for expenditures that will soon be incurred. The encumbrance process helps agencies keep track of their outstanding obligations, and the accounting system prevents agencies from encumbering more funding than has been allotted.

Executive Budget Officer Oversight: MMB assigns an Executive Budget Officer to each State agency for the purposes of approving agency accounting structures, appropriations, and allotments, and for monitoring overall agency revenues and expenditures.

Monthly Reports: MMB maintains a data warehouse which is used to produce standard and ad hoc reports on revenues and expenditures that agency staff and Executive Budget Officers use to monitor agency spending and receipts.

Balanced Budget

Minnesota's Constitution prohibits borrowing for operating purposes beyond the end of a biennium. Options for dealing with a projected deficit are provided for in statute. Borrowing for cash flow purposes within a biennium is allowed; however, revenues for the entire biennium plus any balances carried forward from the previous biennium must be greater than or equal to expenditures for the entire biennium.

If a forecast shows a shortfall for the General Fund for the then existing biennium, the Commissioner of Management and Budget (the "Commissioner") shall use funds and reduce the Budget Reserve Account as needed to balance revenues with expenditures. If there are not enough funds in the Budget Reserve Account to balance the General Fund in the Current Biennium, the Commissioner, with the consent of the Governor and after consulting with the Legislative Advisory Commission may also reduce outstanding appropriations, commonly referred to as "unalloting."

If a forecast shows a shortfall for the General Fund for the next succeeding biennium, the Governor's budget recommendations must propose revenue and/or expenditure changes in order for the budget for that biennium to be in balance at the end of that biennium.

REVENUE AND EXPENDITURE FORECASTING

General

The State's biennial budget appropriation process relies on revenue and expenditure forecasting as the basis for establishing aggregate revenue and expenditure levels. Revenue forecasting for the State is conducted within MMB by the Economic Analysis Unit. Expenditure forecasts for the State are prepared by MMB based on current annual budgets and on current cash expenditure estimates provided by State agencies responsible for significant expenditure items.

In addition to the forecasts prepared for the Legislature before the commencement of each new biennium, forecasts are updated periodically through the biennium. Based on each revenue and expenditure reforecast, MMB prepares a new cash flow analysis for the biennium.

Forecasting Risks

Risks are inherent in the revenue and expenditure forecasts. Assumptions about U.S. economic activity and federal tax and expenditure policy underlie these forecasts. In the forecast it is assumed that existing federal tax law and current federal budget authority and mandates will remain in place. Reductions in federal spending programs may affect State spending. Finally, even if economic and federal tax assumptions are correct, revenue forecasts are still subject to other variables and some normal level of statistical deviations.

Current Forecast Methods and Assumptions

The baseline U.S. economic forecast which the State Economist uses in preparing the State revenue and expenditure forecast is provided by IHS Markit ("IHS" formerly IHS Global Insight, Inc.) of Lexington, Massachusetts. IHS furnishes a monthly forecast of U.S. economic growth and individual incomes across all segments of the national economy.

The IHS national economic forecasts are reviewed by Minnesota's Council of Economic Advisors (the "Council"), a group of macro-economists from the private sector and academia. The Council provides an independent check on the IHS forecast. If the Council determines that the IHS forecast is significantly more optimistic than the current consensus, the Commissioner may base the State forecast on a less optimistic scenario of national economic growth.

Forecasts of individual income tax receipts are based on IHS forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The IHS forecasts are then entered into a model of Minnesota's economy developed and maintained by MMB. State forecasts of employment by major industry sector as well as wage and aggregate earnings are obtained from this model. Non-wage income, itemized deductions and other adjustments to income are in general forecast using national data allocated to Minnesota. The forecasts of income, deductions and adjustments are input to a micro-simulation of the State's individual income tax liability. Calendar year liabilities are converted into fiscal year income tax revenues, with regard given to the timing of withholding tax receipts, quarterly estimated payments, refunds and final payments.

Capital gains realizations have become an increasingly volatile and important share of Minnesota's income tax base. Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth and to changes in inflation and in the real growth rate of the economy. To account for taxpayer response to anticipated changes in federal tax rates on capital gains, federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium rate of realizations instead of adjusting instantaneously to a shock in model variables.

Corporate income tax receipts are forecast using IHS forecast of major variables affecting pre-tax corporate profits. The volatility of corporate profits and the various loss carry-forward and carry-back provisions make this the most difficult revenue source to forecast.

Sales tax receipts are estimated on the basis of a forecast of the sales tax base. The historical base is constructed largely on the basis of national data for items that would be subject to tax if sold in Minnesota. This data is then allocated to Minnesota on the basis of Minnesota's share of national income and employment to arrive at a Minnesota specific base. By means of a regression equation, the base is calibrated to historical collections. Using national forecasts of sales of taxable items and allocating them to Minnesota on the basis of forecasts on Minnesota's share of national income and employment the base is extended into the future. Using information from the aforementioned regression equation the forecast collections are derived from the forecast of the base.

Numerous other revenue sources are forecast, some by MMB and others by the agencies responsible for their collection. These sources account for less than 20 percent of General Fund revenues. As a group, the revenues in this category do not present as large a forecasting risk to the General Fund as do the major taxes. Most are relatively stable and less sensitive to the business cycle than the major tax types. Moreover, many are forecast by agencies with specific knowledge about the magnitude and timing of revenues.

The February 2017 baseline forecast from IHS, the scenario which IHS considered to be the most likely at the time it was made, was used for MMB's February 2017, revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. IHS estimates potential GDP growth to average about 1.6 percent over the 2015 to 2019 period. Real GDP is projected to exceed potential over the 2015-2019 period as the economy expands with falling unemployment and productivity returning to normal levels. Inflation, as measured by the implicit price deflator for GDP, is expected to be moderate.

IHS FEBRUARY 2017
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2015 Actual %	Calendar Year 2016 Forecast %	Calendar Year 2017 Forecast %	Calendar Year 2018 Forecast %	Calendar Year 2019 Forecast %
Real GDP Growth Rate	2.6	1.6	2.3	2.7	2.3
GDP Deflator (Inflation)	1.1	1.3	2.1	2.1	2.0
Nominal GDP Growth Rate	3.7	2.9	4.5	4.8	4.4

A report is published with each forecast and is available at https://mn.gov/mmb/forecast/. The February 2017 Forecast was released February 28, 2017, (the "February 2017 Forecast"). See "FINANCIAL INFORMATION" in this APPENDIX B. The November 2017 IHS Baseline will be used as the baseline for the next revenue and expenditure forecast.

July Revenue and Economic Update

Minnesota's net General Fund receipts for FY 2017 are now estimated to total $20.949 billion, $104 million (0.5 percent) less than projected in the February 2017 Budget and Economic Forecast. Lower than expected net individual income tax receipts more than offset net sales, corporate, and other tax receipts that exceeded the forecast. General fund revenues for FY 2017 are now estimated to be 0.3 percent greater than in FY 2016. State revenues in the final quarter of FY 2017 were $127 million less than forecast.

Net individual income tax receipts are estimated to end the year $260 million (2.3 percent) less than forecast. Gross income tax receipts were $142 million below forecast, and refunds were $118 million larger than expected.

Net collections associated with tax year 2016 final returns and extensions were about $292 million below the forecast. The State will not know final tax year 2016 income tax liability until extension return processing is completed at the end of 2017. However, data from the Quarterly Census on Employment and Wages ("QCEW") now suggests that Minnesota wage and salary income grew about one percentage point more slowly in 2016 than the State had forecast in February. That is consistent with tax year 2016 net income tax receipts coming in short of forecast. In addition, non-wage income—particularly capital gains—may have grown more slowly in 2016 than the State had forecast. The Congressional Budget Office ("CBO") has speculated that weak federal income tax payments for 2016 may be due in part to taxpayers shifting payments from 2016 into later years in anticipation of federal tax rate cuts. The State will know more about 2016 Minnesota non-wage income when the State sees information from a preliminary sample of 2016 tax returns in early 2018.

On net, payments generally associated with calendar year 2017 activity—income tax withholding and estimated payments—were about $32 million more than forecast. Withholding payments were above the forecast, offsetting lower than expected estimated payments. About $15 million of the positive withholding variance appears to be due to timing of withholding collections, rather than increased economic activity.

Net general sales tax receipts are estimated to end FY 2017 $13 million (0.2 percent) above the forecast. Lower than expected sales tax refunds more than offset gross tax payments that were below the forecast. Net corporate receipts for FY 2017 were $59 million (5.2 percent) more than projected. As with the sales tax, lower than expected

corporate refunds more than offset gross tax payments that were below the forecast. Other revenues for FY 2017 exceeded the forecast by $84 million (2.5 percent).

HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the State's General Fund revenues and expenditures for the Fiscal Years ended June 30, 2014 through 2016, on an accrual basis. The revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such fiscal years. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included.

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STATE OF MINNESOTA
GENERAL FUND COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(THOUSANDS OF DOLLARS)
UNAUDITED

	Fiscal Year Ended June 30 [1]		
	2014	2015	2016
NET REVENUES:			
Individual Income Taxes	$ 9,859,403	$ 10,640,365	$ 11,013,385
Corporation Income Taxes	1,302,563	1,503,461	1,414,531
Sales Taxes	4,980,503	5,138,575	5,217,805
Property Taxes	830,759	836,257	855,032
Motor Vehicle Excise Taxes	260,503	278,085	286,219
Other Taxes	1,750,926	1,811,162	1,862,792
Tobacco Settlement	175,399	170,747	171,238
Federal Revenues	3,670	1,144	3,053
Licenses and Fees	205,965	215,960	222,306
Departmental Services	200,708	196,884	197,392
Investment/Interest Income	138,728	64,943	62,005
All Other Revenues [2]	213,123	311,969	249,380
NET REVENUES	$ 19,922,250	$ 21,169,552	$ 21,555,138
EXPENDITURES:			
Current:			
Agricultural, Environmental and Energy Resources	$ 245,734	$ 238,032	$ 251,055
Economic and Workforce Development	178,859	184,236	218,708
General Education [3]	8,243,607	8,275,184	8,600,102
General Government	694,465	748,208	719,083
Health and Human Services [4]	5,644,686	6,053,433	5,956,678
Higher Education [5]	823,664	850,649	899,091
Intergovernmental Aid [6]	1,290,612	1,583,093	1,626,221
Public Safety and Corrections	592,058	631,140	644,486
Transportation	400,551	363,266	407,206
Total Current Expenditures	$ 18,114,236	$ 18,927,241	$ 19,322,630
Capital Outlay	28,182	31,384	31,209
Debt Service	34,722	28,124	25,279
TOTAL EXPENDITURES	$ 18,177,140	$ 18,986,749	$ 19,379,118
EXCESS Of REVENUES OVER (UNDER) EXPENDITURES	$ 1,745,110	$ 2,182,803	$ 2,176,020
OTHER FINANCING SOURCES (USES)			
Bond Issuance	$ 37,830	$ -	$ 4,672
Issuance of Refunding Bonds	-	3,930	-
Payment of Refunded Bonds Escrow Agent	-	(3,930)	-
Bond Issue Premium	241	248	819
Transfer-In	366,779	273,990	388,381
Transfer-Out	(1,657,555)	(2,112,030)	(1,678,689)
NET OTHER FINANCING SOURCES (USES)	$ (1,252,705)	$ (1,837,792)	$ (1,284,817)
NET CHANGE IN FUND BALANCES	$ 492,405	$ 345,011	$ 891,203

(1) For Fiscal Years 2014, 2015, and 2016, the schedule of revenues and expenditures includes all financial activity for the Fiscal Year, including revenue and expenditure accruals at June 30.

(2) During Fiscal Year 2015, All Other Revenues increased due to additional outreach and education programs in the prior year to identify owners of unclaimed property which resulted in a decrease in revenue retained by the State.

(3) During Fiscal Year 2016, General Education function spending increased due to a 2% per pupil increase and an increase in number of pupils.

(4) During Fiscal Year 2015, Health and Human Services function spending increased due to an expansion of eligibility for medical assistance.

(5) During Fiscal Year 2016, Higher Education function spending increased due to an increase in grants to the University of Minnesota and the Office of Higher Education.

(6) During Fiscal Year 2015 and 2016, Intergovernmental Aid function spending increased due to an increase in grants to cities and counties.

BIENNIUM BUDGETS

The biennium that began on July 1, 2015, and ended on June 30, 2017, is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2017, and will end on June 30, 2019, is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2019, and will end on June 30, 2021, is referred to herein as the "Next Biennium." An individual fiscal year is referred to herein as "FY" or "Fiscal Year."

Forecast and projected revenues and expenditures are based on the legal requirements contained in Minnesota statutes and session laws as of the time of the forecast and projections.

February 2017 Forecast – Previous Biennium

The February 2017 Forecast updated General Fund revenues and expenditures projected for the Previous Biennium. Forecast revenues were expected to be $42.435 billion, up $75 million (0.2 percent) from the November 2016 forecast estimates. Forecast spending was expected to be $41.816 billion, down $13 million (0.0 percent) from prior estimates. These changes, coupled with a $1 million increase in the expected balance of the Stadium Reserve Account resulted in a projected budgetary balance of $744 million.

Revenues: General Fund revenues for the Previous Biennium in the February 2017 Forecast were expected to reach $42.435 billion, $75 million higher than prior estimates. Included in the revenue base for the February 2017 Forecast were tax revenue law changes enacted by the Legislature early in the 2017 Regular Legislative Session related to federal tax law conformity that resulted in a projected $22 million revenue loss. A higher forecast for individual income taxes accounted for most of the increased forecast revenue.

Expenditures: General Fund spending estimates for the Previous Biennium were slightly lower than prior estimates for the biennium. Spending was expected to be $41.816 billion, $13 million lower than prior estimates. Forecast expenditure changes in the February 2017 Forecast were made after the adjusting the November 2016 forecast spending base for $327 million in new spending for health insurance premium relief authorized early in the 2017 regular Legislative Session. Other spending changes were minimal with a slight decrease in the HHS budget ($42 million) partially offset by a small increase in projected E-12 education expenditures.

Reserves: General Fund reserves totaled $1.978 billion. The reserves include $350 million in the Cash Flow Account and $25 million in the Stadium Reserve Account. The remainder, $1.603 billion is the balance of the Budget Reserve Account. This account was reduced prior to the February 2017 Forecast by $327 million in the 2017 regular Legislative Session to fund health insurance premium relief expenditures.

2017 Legislative Sessions – Previous Biennium

The regular legislative session adjourned on May 22, 2017 without passing appropriations bills for some major bill areas. The Governor called a special legislative session immediately following adjournment of the regular session and all remaining budget bills were passed during the special session, which adjourned May 25, 2017. The enacted budget bills in the regular and special sessions had a small impact on the Previous Biennium beyond the changes early in the legislative session described above.[1] Projected spending for the Previous Biennium is now expected to be $41.830 billion, $14 million higher than February estimates. Spending increases were due to deficiency appropriations made to the Department of Corrections, cash capital project appropriations and other minor appropriations and cancellations. Revenue changes totaled $540 thousand leaving projected total revenues in the Previous Biennium of $42.435 billion. Reserves were unchanged leaving a projected ending budgetary balance in the Previous Biennium of $730 million.

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[1] After the conclusion of the special legislative session the Governor exercised line item veto authority to strike operating appropriations for the house and senate in the Current Biennium. The Legislature challenged the Governor's line item veto authority in district court which struck down the vetoes. The case was appealed to the Minnesota Supreme Court on an expedited basis, which upheld the line item vetoes by order on September 8, 2017, but also ordered supplemental briefing and mediation. See "LITIGATION" section of this Official Statement. The line item vetoes of the house and senate appropriations had no impact on the Previous Biennium.

PREVIOUS BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF REVENUE AND EXPENDITURES
END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
($'S IN THOUSANDS)[1]

	Actuals FY 2016	Enacted w/CO FY 2017	Prior Biennium FY 2016-17
Actual & Estimated Resources			
Balance Forward From Prior Year	$2,103,017	$3,102,423	$2,103,017
Current Resources:			
Tax Revenues	20,110,469	20,315,869	40,426,338
Non-Tax Revenues	779,291	737,362	1,516,653
Subtotal - Non-Dedicated Revenue	20,889,760	21,053,231	41,942,991
Dedicated Revenue	1,017	514	1,531
Transfers In	192,727	202,732	395,459
Prior Year Adjustments	67,861	27,109	94,970
Subtotal - Other Revenue	261,605	230,355	491,960
Budget Changes - Taxes	-	(540)	(540)
Budget Changes - Non-Taxes	-	-	-
Subtotal-Current Resources	$21,151,365	$21,283,586	$42,434,951
Total Resources Available	**$23,254,382**	**$24,386,009**	**$44,537,968**
Actual & Estimated Spending			
E-12 Education	$8,507,385	$8,916,477	$17,423,862
Higher Education	1,529,168	1,551,978	3,081,146
Property Tax Aids & Credits	1,646,052	1,691,896	3,337,948
Health & Human Services	5,601,161	6,164,950	11,766,111
Public Safety & Judiciary	1,037,999	1,137,136	2,175,135
Transportation	135,089	141,710	276,799
Environment & Agriculture	270,810	237,490	508,300
Jobs, Economic Development, Housing & Commerce	198,722	285,968	484,690
State Government & Veterans	467,274	898,953	1,366,227
Debt Service	609,285	529,215	1,138,500
Capital Projects & Grants	140,225	137,243	277,468
Deficiencies/Other	8,789	-	8,789
Estimated Cancellations	-	(15,000)	(15,000)
Total Expenditures & Transfers	**$ 20,151,959**	**$ 21,678,016**	**$ 41,829,975**
Balance Before Reserves	**3,102,423**	**2,707,993**	**2,707,993**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	1,596,522	1,603,443	1,603,443
Stadium Reserve	22,535	24,951	24,951
Appropriations Carried Forward	187,204	-	-
Budgetary Balance	**$946,162**	**$729,599**	**$729,599**

[1] Totals may not foot due to rounding.

The following table sets forth by source the forecasted amounts of non-dedicated revenues allocable to the General Fund for the Previous Biennium, presented on a budgetary basis.

PREVIOUS BIENNIUM
FY 2016-2017 GENERAL FUND BUDGET
ESTIMATES OF NONDEDICATED REVENUE
END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER

	Fiscal Year 2016	Fiscal Year 2017	Previous Biennium
Non-Dedicated Revenues			
Individual Income Tax	$10,738,906	$11,187,700	$21,926,606
Corporate Income Tax	1,473,097	1,142,224	2,615,321
Sales Tax	5,232,721	5,347,259	10,579,980
Statewide Property Tax	853,780	838,331	1,692,111
Estate Tax	183,216	139,100	322,316
Liquor, Wine & Beer Tax	88,448	88,430	176,878
Cigarette & Tobacco Products Tax	617,947	623,590	1,241,537
Taconite Ocupation Tax	6,550	2,600	9,150
Mortgage Registry Tax	115,750	124,352	240,102
Deed Transfer Tax	110,252	116,965	227,217
Insurance Gross Earn & Fire Marshall	363,137	372,552	735,689
Controlled Substance Tax	0	5	5
Other Gross Earnings	55	50	105
Lawful Gambling Taxes	56,258	62,000	118,258
Medical Assistance Surcharges	275,245	276,116	551,361
Motor Vehicle Registration Tax	671	0	671
Other Tax Refunds	(5,564)	(5,405)	(10,969)
Investment Income	18,887	26,000	44,887
Lottery Revenue	66,224	65,111	131,335
Tobacco Settlements	171,238	158,453	329,691
Departmental Earnings	198,314	185,929	384,243
DHS MSOP Collections	11,920	14,500	26,420
DHS SOS Collections	54,946	56,425	111,371
Fines & Surcharges	80,017	79,143	159,160
County Nursing Home, Public Hosp IGT	6,792	6,226	13,018
All Other Non-Dedicated Revenue	170,953	145,575	316,528
Total Net Non-Dedicated Revenues	**$20,889,760**	**$21,053,231**	**$41,942,991**

February 2017 Forecast – Current Biennium

The November 2016 forecast provided the first official forecast for the Current Biennium, as well as revenue and expenditure planning estimates for the Next Biennium. In November 2016 a balance of $1.400 billion was projected for the Current Biennium. Revisions in the February 2017 Forecast increased the projected balance to $1.651 billion. General Fund revenues for the Current Biennium were forecast to be $45.663 billion, $3.228 billion (7.6 percent) higher than the Previous Biennium. General Fund expenditures for the Current Biennium were expected to be $44.741 billion, $2.924 billion (7.0 percent) higher than the Previous Biennium.

Revenues: Tax revenue was estimated to be $3.472 billion (8.6 percent) higher than the Previous Biennium. The forecast for individual income tax receipts is $2.475 billion higher than in Previous Biennium primarily resulting from forecast income growth in tax years 2017 and 2018. Projected higher gross tax receipts and lower refunds resulted in $886 million higher sales tax receipts than the Previous Biennium. The statewide property tax was expected to be $50 million higher. Biennial growth in tax revenues was offset slightly by reductions in non-tax revenues and other resources.

Expenditures: Expenditures for the Current Biennium were forecast to grow to $44.741 billion, $2.925 billion higher than the Previous Biennium. The vast majority of that growth ($2.558 billion) is within Health and Human Services programs, where costs are driven by health care enrollment and cost growth along with approximately $530 million that resulted from the payback of shifting among both state funds and budget periods in earlier budgets. Estimates for E-12 education spending were $845 million (4.8 percent) over estimated spending in the Previous Biennium. Biennial increases in E-12 spending are driven by pupil population growth, but are not adjusted for other cost drivers like projected compensation growth for teachers. Growth in expenditures in health and human services and E-12 education were offset by a net decrease of $479 million in all other areas of State government primarily due to the expiration of one-time expenditures in the Previous Biennium.

Reserves: The reserve amounts for the Current Biennium were largely unchanged from levels in the Previous Biennium. Total General Fund reserves were $1.993 billion, $15 million higher than Previous Biennium due to an increase in the Stadium Reserve Account balance. Balances projected for the Current Biennium in the February 2017 Forecast were: $1.603 billion in the Budget Reserve Account, $350 million in the Cash Flow Account and $40 million in the Stadium Reserve Account.

2017 Legislative Sessions – Current Biennium

During the 2017 regular and special legislative sessions the Legislature enacted a number of revenue and expenditure measures in the General Fund for the Current Biennium. The 2017 Legislative Sessions concluded May 25, 2017, with a balanced budget for the Current Biennium. The enacted budget included decreased net General Fund revenues by $657 million and appropriated an additional $800 million over the February 2017 Forecast base spending amount; changes were not made to the reserves. The Governor exercised his line item veto authority to strike operating appropriations for the house and senate which reduced projected spending by $129 million. The Legislature challenged the Governor's line item veto authority. By order dated September 8, 2017, the Minnesota Supreme Court upheld the line item vetoes but also ordered supplemental briefing and mediation. See "LITIGATION" section of this Official Statement. A June 26, 2017 stipulated district court order established temporary operating funding for the house and senate for three months totaling $16 million. The parties have entered into stipulations regarding implementation of the June 26 district court order. After accounting for all revenue and expenditure changes enacted for the Current Biennium, along with the Governor's veto and subsequent district court order, the General Fund balance at the end of the biennium is estimated to be $163 million.

Revenues in Enacted Budget: The approved budget reflected changes in General Fund revenues from the February 2017 Forecast for the Current Biennium. Net General Fund Revenues now total $45.006 billion, $657 million lower than February′s estimates.

Tax Revenues: The Legislature enacted significant tax changes in the 2017 Legislative Sessions. In total, net tax revenues are projected to be $653 million lower than forecast. Tax law changes included income tax subtractions and credits for student loan debt, income tax subtractions for social security income, increased credits for dependent care expenses, enhancement of the research and development credit and reductions to the statewide property tax and estate tax. Additionally, current sales tax receipts for auto parts, rental cars, and motor vehicle leasing were dedicated to transportation funds which has the impact of reducing projected General Fund tax revenue.

Non-Tax and Other Revenues: Legislation enacted in the 2017 Legislative Sessions had minor impact on transfers, fees, fines, surcharges and other non-dedicated General Fund revenues. Total non-tax revenue is projected to be $1.397 billion, $4 million lower than February's forecast.

Expenditures in Enacted Budget: After accounting for the court order establishing temporary appropriations for the house and senate, General Fund expenditures in the Current Biennium are now expected to total $45.557 billion, $816 million higher than forecast estimates. Appropriations in State and local programs were made across all areas of the State budget. Significant appropriations were provided to E-12 education, higher education, public safety and judiciary, environment and agriculture, and economic development. Cost shifting in health and human services partially offset increases in other areas of the budget.

E-12 education expenditures are estimated to be $18.758 billion, $486 million higher than previously forecast. E-12 education spending represents 41 percent of total General Fund expenditures. The Legislature enacted major appropriations in education finance including a 2 percent increase in the basic education formula in each year ($371 million), and increases in early childhood education programs, including increases to Early Learning Scholarships ($20 million), and School Readiness Plus ($50 million).

Higher education spending is now projected to be $3.279 billion, $210 million higher than February's projections. An additional $55 million was provided to the University of Minnesota, and an additional $106 million was provided to Minnesota State. An increase of $49 million was also made for the Office of Higher Education to fund its state grant program.

Property tax aid and credit spending is projected to be $3.641 billion in the Current Biennium, $190 million higher than February 2017 Forecast. Increases to local government aid (cities) and county program aid along with a new school building bond agricultural credit program drive the change.

Reductions of $466 million to Health and Human Services set the Current Biennium spending in the area at $13.858 billion. Health and human services is projected to account for 30 percent of total General Fund spending. Cost shifting of Medical Assistance program (Medical Assistance) spending from the General Fund to the Health Care Access Fund in the Current Biennium resulted in savings of $389 million. Payment delays to managed care providers resulted in savings of $172 million. Offsetting this savings is increased funding for family home visiting, agency operating increases, security hospital staffing increase, and personal care attendant funding.

Public safety and Judiciary spending is now estimated to total $2.321 billion in the Current Biennium, an increase of $155 million over February 2017 Forecast. Significant increases in appropriations to the court operations and the department of corrections account for the majority of the change.

Jobs and economic development spending is expected to be $534 million in the Current Biennium, an increase of $165 million. Appropriations for the reinsurance at the Department of Commerce, and funding for broadband infrastructure account for the increase.

Spending in all other areas of the budget totals $3.203 billion, $75 million higher than February projections. Accounting for the change is $95 million higher spending in General Fund transportation spending for transit operations and local road spending, $10 million in environment and agriculture, and $16 million in higher debt service and capital project appropriations included in the bonding bill. Partially offsetting the increase in all other areas is $46 million lower spending in State Government due to the line item veto of the house and senate appropriations. If, as a result of court action and possible special session, full funding were restored for the house and senate, spending in the state Government bill area would be $113 million higher for a combined total spending of $129 million for the house and senate. See "LINE ITEM VETOES AND POSSIBLE SPECIAL LEGISLATIVE SESSION" section of this Official Statement.

Reserves in Enacted Budget: The reserve amounts for the Current Biennium are unchanged from levels projected in the February 2017 Forecast. Total General Fund reserves in the enacted budget are $1.993 billion: $1.603 billion in the Budget Reserve Account, $350 million in the Cash Flow Account and $40 million in the Stadium Reserve Account.

2017 Possible Special Legislative Session

For further discussion, see "LINE ITEM VETOES AND POSSIBLE SPECIAL LEGISLATIVE SESSION" section of this Official Statement.

CURRENT BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF REVENUE AND EXPENDITURES
END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
($'s in Thousands)[1]

	Enacted w/CO FY 2018	Enacted w/CO FY 2019	Current Biennium FY 2018-19
Actual & Estimated Resources			
Balance Forward From Prior Year	$2,707,993	$2,180,259	$2,707,993
Current Resources:			
Tax Revenues	21,091,726	22,154,522	43,246,248
Non-Tax Revenues	702,537	694,048	1,396,585
Subtotal - Non-Dedicated Revenue	21,794,263	22,848,570	44,642,833
Dedicated Revenue	594	611	1,205
Transfers In	154,291	154,294	308,585
Prior Year Adjustments	26,950	26,560	53,510
Subtotal - Other Revenue	181,835	181,465	363,300
Budget Changes - Taxes	(302,030)	(350,716)	(652,746)
Budget Changes - Non-Taxes	(1,202)	(3,261)	(4,463)
Subtotal-Current Resources	$21,976,098	$23,030,035	$45,006,133
Total Resources Available	**$24,684,091**	**$25,210,294**	**$47,714,126**
Actual & Estimated Spending			
E-12 Education	$9,217,023	$9,541,338	$18,758,361
Higher Education	1,651,092	1,628,401	3,279,493
Property Tax Aids & Credits	1,726,721	1,914,673	3,641,394
Health & Human Services	6,901,635	6,956,413	13,858,048
Public Safety & Judiciary	1,154,350	1,166,612	2,320,962
Transportation	160,785	178,709	339,494
Environment & Agriculture	222,868	220,004	442,872
Jobs, Economic Development, Housing & Commerce	277,127	257,339	534,466
State Government & Veterans	502,230	485,465	987,695
Debt Service	566,513	588,788	1,155,301
Capital Projects & Grants	128,488	130,766	259,254
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Total Expenditures & Transfers	**$22,503,832**	**$23,053,508**	**$45,557,340**
Balance Before Reserves	**2,180,259**	**2,156,786**	**2,156,786**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	1,603,443	1,603,443	1,603,443
Stadium Reserve	31,833	40,301	40,301
Budgetary Balance	**$194,983**	**$163,042**	**$163,042**

[1] Totals may not foot due to rounding.

The following table sets forth by source the forecasted amounts of non-dedicated revenues allocable to the General Fund for the Current Biennium, presented on a budgetary basis.

CURRENT BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF NONDEDICATED REVENUES
END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
($'s in Thousands)[1]

	Fiscal Year 2018	Fiscal Year 2019	Current Biennium
Non-Dedicated Revenues			
Individual Income Tax	$11,714,436	$12,435,996	$24,150,432
Corporate Income Tax	1,277,760	1,343,197	2,620,957
Sales Tax	5,464,672	5,744,772	11,209,444
Statewide Property Tax	830,906	815,100	1,646,006
Estate Tax	142,350	137,550	279,900
Liquor, Wine & Beer Tax	90,180	91,930	182,110
Cigarette & Tobacco Products Tax	621,650	617,590	1,239,240
Taconite Occupation Tax	2,900	3,000	5,900
Mortgage Registry Tax	106,015	107,273	213,288
Deed Transfer Tax	123,291	127,808	251,099
Insurance Gross Earn & Fire Marshall	382,489	393,329	775,818
Controlled Substance Tax	5	5	10
Other Gross Earnings	50	50	100
Lawful Gambling Taxes	65,100	67,100	132,200
Medical Assistance Surcharges	275,627	275,627	551,254
Other Tax Refunds	(5,705)	(5,805)	(11,510)
Investment Income	19,000	19,000	38,000
Lottery Revenue	64,544	64,124	128,668
Tobacco Settlements	154,296	152,052	306,348
Departmental Earnings	192,914	190,112	383,026
DHS MSOP Collections	14,500	14,500	29,000
DHS SOS Collections	56,425	56,425	112,850
Fines & Surcharges	77,163	77,007	154,170
County Nursing Home, Public Hosp IGT	6,226	6,226	12,452
All Other Non-Dedicated Revenue	117,469	114,602	232,071
Total Net Non-Dedicated Revenues	**$21,794,263**	**$22,848,570**	**$44,642,833**

[1] Totals may not foot due to rounding.

HISTORICAL AND PROJECTED REVENUE AND EXPENDITURE GROWTH

The following tables display historical and projected General Fund revenue and expenditure growth by year for the General Fund for the Previous Biennium and the Current Biennium. Information is provided by major revenue and expenditure categories based on end of 2017 Legislative Sessions estimates.

HISTORICAL AND PROJECTED REVENUE GROWTH
GENERAL FUND END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
($'s in Millions)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Enacted FY 2017	Enacted FY 2018	Enacted FY 2019	Enacted FY 2020	Enacted FY 2021	Average Annual
Individual Income Tax	$ 9,660	$ 10,403	$ 10,739	$ 11,188	$ 11,714	$ 12,436	$ 12,918	$ 13,656	5.1%
$ change	647	744	335	449	527	722	482	738	
% change	**7.2%**	**7.7%**	**3.2%**	**4.2%**	**4.7%**	**6.2%**	**3.9%**	**5.7%**	
Sales Tax	$ 5,043	$ 5,131	$ 5,233	$ 5,347	$ 5,465	$ 5,745	$ 5,867	$ 6,109	2.8%
$ change	282	89	101	115	117	280	122	242	
% change	**5.9%**	**1.8%**	**2.0%**	**2.2%**	**2.2%**	**5.1%**	**2.1%**	**4.1%**	
Corporate Tax	$ 1,278	$ 1,455	$ 1,473	$ 1,142	$ 1,278	$ 1,343	$ 1,341	$ 1,322	0.5%
$ change	(3)	177	18	(331)	136	65	(2)	(19)	
% change	**-0.2%**	**13.9%**	**1.2%**	**-22.5%**	**11.9%**	**5.1%**	**-0.1%**	**-1.4%**	
Statewide Property Tax	$ 836	$ 838	$ 854	$ 838	$ 831	$ 815	$ 814	$ 813	-0.4%
$ change	24	3	16	(16)	(7)	(16)	(1)	(1)	
% change	**3.0%**	**0.3%**	**1.9%**	**-1.8%**	**-0.9%**	**-1.9%**	**-0.1%**	**-0.1%**	
Other Tax Revenue	$ 1,738	$ 1,758	$ 1,812	$ 1,800	$ 1,804	$ 1,815	$ 1,829	$ 1,846	0.9%
$ change	456	20	53	(11)	4	12	13	18	
% change	**35.6%**	**1.2%**	**3.0%**	**-0.6%**	**0.2%**	**0.6%**	**0.7%**	**1.0%**	
Total Tax Revenue	$18,554	$ 19,587	$ 20,110	$ 20,316	$ 21,092	$ 22,155	$ 22,770	$ 23,747	3.6%
$ change	1,407	1,033	524	205	776	1,063	615	978	
% change	**8.2%**	**5.6%**	**2.7%**	**1.0%**	**3.8%**	**5.0%**	**2.8%**	**4.3%**	
Non-Tax Revenues	$ 721	$ 753	$ 779	$ 737	$ 703	$ 694	$ 694	$ 687	-0.7%
$ change	(77)	31	27	(42)	(35)	(8)	0	(8)	
% change	**-9.7%**	**4.3%**	**3.5%**	**-5.4%**	**-4.7%**	**-1.2%**	**0.0%**	**-1.1%**	
Transfers, All Other	$ 188	$ 82	$ 193	$ 203	$ 154	$ 154	$ 154	$ 155	-2.8%
$ change	(414)	(105)	110	10	(48)	0	0	0	
% change	**-68.8%**	**-56.1%**	**133.8%**	**5.2%**	**-23.9%**	**0.0%**	**0.1%**	**0.1%**	
Total Revenue	$19,463	$ 20,422	$ 21,082	$ 21,256	$ 21,949	$ 23,003	$ 23,618	$ 24,589	3.4%
$ change	916	959	661	173	693	1,054	615	970	
% change	**4.9%**	**4.9%**	**3.2%**	**0.8%**	**3.3%**	**4.8%**	**2.7%**	**4.1%**	

HISTORICAL AND PROJECTED SPENDING GROWTH
GENERAL FUND END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
($'s in Millions)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Enacted FY 2017	Enacted FY 2018	Enacted FY 2019	Enacted FY 2020	Enacted FY 2021	Average Annual
K-12 Education	$ 8,430	$ 8,188	$ 8,507	$ 8,916	$ 9,217	$ 9,541	$ 9,679	$ 9,838	2.2%
$ change	(435)	(242)	319	409	301	324	138	158	
% change	**-4.9%**	**-2.9%**	**3.9%**	**4.8%**	**3.4%**	**3.5%**	**1.4%**	**1.6%**	
Higher Education	$ 1,381	$ 1,452	$ 1,529	$ 1,552	$ 1,651	$ 1,628	$ 1,628	$ 1,628	2.4%
$ change	86	71	77	23	99	(23)	(1)	-	
% change	**6.7%**	**5.1%**	**5.3%**	**1.5%**	**6.4%**	**-1.4%**	**0.0%**	**0.0%**	
Prop. Tax Aids & Credits	$ 1,321	$ 1,613	$ 1,646	$ 1,692	$ 1,727	$ 1,915	$ 1,795	$ 1,883	5.2%
$ change	0	292	33	46	35	188	(120)	89	
% change	**0.0%**	**22.1%**	**2.1%**	**2.8%**	**2.1%**	**10.9%**	**-6.3%**	**4.9%**	
Health & Human Services	$ 5,430	$ 6,191	$ 5,601	$ 6,165	$ 6,902	$ 6,956	$ 7,861	$ 7,869	5.4%
$ change	222	761	(590)	564	737	55	904	8	
% change	**4.3%**	**14.0%**	**-9.5%**	**10.1%**	**11.9%**	**0.8%**	**13.0%**	**0.1%**	
Public Safety	$ 944	$ 1,035	$ 1,041	$ 1,137	$ 1,154	$ 1,167	$ 1,172	$ 1,173	3.2%
$ change	(14)	91	6	96	17	12	5	2	
% change	**-1.5%**	**9.6%**	**0.6%**	**9.2%**	**1.5%**	**1.1%**	**0.4%**	**0.1%**	
Debt Service	$ 620	$ 624	$ 609	$ 529	$ 567	$ 589	$ 590	$ 627	0.2%
$ change	397	4	(14)	(80)	37	22	1	37	
% change	**178.0%**	**0.6%**	**-2.3%**	**-13.1%**	**7.0%**	**3.9%**	**0.2%**	**6.3%**	
All Other	$ 1,223	$ 1,190	$ 1,218	$ 1,686	$ 1,286	$ 1,257	$ 1,134	$ 1,142	-1.0%
$ change	352	(33)	28	468	(400)	(29)	(124)	8	
% change	**40.4%**	**-2.7%**	**2.4%**	**38.5%**	**-23.7%**	**-2.3%**	**-9.8%**	**0.7%**	
Total Spending	$19,349	$20,293	$ 20,152	$ 21,678	$ 22,504	$ 23,054	$ 23,858	$ 24,159	3.2%
$ change	609	944	(141)	1,526	826	550	804	302	
% change	**3.2%**	**4.9%**	**-0.7%**	**7.6%**	**3.8%**	**2.4%**	**3.5%**	**1.3%**	

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BUDGET PLANNING ESTIMATES

Next Biennium

Planning estimates for the Next Biennium are based on the February 2017 Forecast adjusted for legislative action. The planning projections contain revenue and expenditure estimates for the Next Biennium based on the most recent information about the national and state economic outlook, caseloads, enrollments and cost projections as amended to reflect legislative enactment of the budget for the Current Biennium. The longer-term estimates for the Next Biennium carry a higher degree of uncertainty and a larger range of potential error.

The actions taken during the 2017 Legislative Sessions that adjusted the budget for the Current Biennium impacted the projections and estimates for the Next Biennium. General Fund revenues are now estimated to be $48.271 billion, $3.265 billion (7.3 percent) higher than estimates for the Current Biennium. Expected growth in the two largest General Fund revenue sources account for $3.233 billion of the growth. Receipts for individual income taxes and sales tax are expected to grow 10.0 percent and 6.8 percent, respectively.

Projected spending in the Next Biennium is now estimated to be $48.017 billion, $2.460 billion (5.4 percent) higher than estimates for the Current Biennium. Expected growth in the two largest areas of the budget more than accounts for the overall growth. E-12 education and health and human services are expected to grow 4.0 percent, and 13.5 percent, respectively. Partially offsetting the growth is lower projected spending in environment, agriculture, transportation and economic development programs due to one-time spending commitments in the Current Biennium. Spending projections only include increases incorporated in current law to education aids, health care, and local aid/property tax relief programs based on enrollment, caseload and current law formula provisions.

The budget planning estimate for the Next Biennium is structurally balanced; projected revenues are expected to exceed estimated spending by $254 million. The impact of inflation is not reflected in expenditure projections. Based on the February 2017 Forecast the consumer price index is projected to increase by 2.6 percent in FY 2020 and 2.7 percent in FY 2021. Annual expenditure inflation pressures, if recognized, would add approximately $3.084 billion to spending estimates for the Next Biennium.

General Fund reserve estimates in the Next Biennium include $1.603 billion in the Budget Reserve Account, and a $350 million balance in the Cash Flow Account, both unchanged from the Current Biennium. The balance in the Stadium Reserve Account is projected to be $82 million.

Revenue, spending and reserve estimates for the Next Biennium will be updated in the November 2017 forecast.

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GENERAL FUND REVENUE SOURCES

Tax Sources

The State's principal sources of non-dedicated revenues are taxes of various types. A description of the major taxes is set forth below.

Income Tax: The income tax rate schedules for 2017 consist of four income brackets having tax rates of 5.35 percent, 7.05 percent, 7.85 percent and 9.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the national consumer price index. The base of the tax is federal taxable income, with selected additions and subtractions. In the 2017 Legislative Sessions, the Legislature enacted a subtraction for taxable social security benefits in Adjusted Gross Income. For a married couple the maximum subtraction is $4,500, for single and head of household filers the maximum is $3,500. These maximums are indexed for inflation; the subtraction phases out for higher income taxpayers. There is an income exclusion for low-income elderly and disabled taxpayers. The exclusion phases out as adjusted gross income and nontaxable sources of income rise. Two earner couples are entitled to a non-refundable credit against tax liability to offset the additional tax liability that results from the "married joint" filing status as opposed to the "single" filing status. The maximum credit per return to offset this "marriage penalty" is $1,433.00. In addition, the State tax code contains a refundable child care credit, a working family credit, and an education credit all targeted at low income parents. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income or AMTI (which is similar to federal alternative minimum taxable income) at a flat rate of 6.75 percent on AMTI in excess of an exemption amount, to the extent the minimum tax exceeds the regular tax.

SINGLE FILER

Taxable Income	Tax
on the first $25,390	5.35%
on all over $25,390 but not over $83,400	7.05%
on all over $83,400 but not over $156,900	7.85%
on all over $156,900	9.85%

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $37,110	5.35%
on all over $37,110, but not over $147,450	7.05%
on all over $147,450, but not over $261,510	7.85%
on all over $261,510	9.85%

Married individuals filing separate returns, estates and trusts must compute their income tax by applying married rates, except that the income brackets will be one-half of the above amounts.

HEAD OF HOUSEHOLD

Taxable Income	Tax
on the first $31,260	5.35%
on all over $31,260, but not over $125,600	7.05%
on all over $125,600, but not over $209,200	7.85%
on all over $209,200	9.85%

Sales and Use Tax: The sales tax rate of 6.875 percent is applicable to most retail sales of goods with the exception of food, clothing, and drugs. Purchases made by non-profit organizations and the federal government, most local governments and school districts are exempt (beginning January 1, 2017, purchases of all local governments will be exempt). In general capital equipment used in manufacturing, fabricating, mining and refining is exempt from tax. In November 2008, Minnesota voters voted to amend the constitution to raise the sales tax rate beginning on July 1, 2009, by 3/8 of 1 percent point. The proceeds from the incremental increase are dedicated to funds other than the General Fund for the purpose of protecting the environment and preserving Minnesota's arts and cultural heritage. The new general statewide rate is 6.875 percent. The 3/8 of 1 percent point increment will be in place through 2034. In the 2017 Legislative Sessions the sales tax on rental cars and motor vehicle leases and a portion of the sales tax revenue generated on auto parts sales was redirected from the General Fund to the Highway User Tax Distribution Fund. See "TRUNK HIGHWAY SYSTEM" section of this APPENDIX B for additional information.

Statewide Property Tax: A State general property tax is levied on commercial and industrial property, public utility property, unmined iron ore property, and seasonal recreational property, including cabins. Electric generation attached machinery and property located at the Minneapolis-St. Paul International Airport and the St. Paul Airport are exempt from this tax. Effective beginning with taxes payable in 2018, the first $100,000 is exempt. The tax is levied at a uniform rate across the State. The levy amount is set at $828.78 million, effective for taxes payable in 2018 and thereafter, under legislation enacted in the 2017 Special session. Previously to that, the levy amount was adjusted annually for the increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for State and local governments prepared by the U.S. Bureau of Economic Analysis.

Corporate Franchise Tax: A flat tax rate of 9.8 percent is imposed on corporate taxable income. Beginning in 2014, corporations apportion their income to Minnesota solely on the basis of sales in Minnesota. Prior to 2014 a three factor formula of property, payroll and sales had been used. That formula was phased out between 2007 and 2014. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8 percent, to the extent the minimum tax exceeds the regular tax. In the 2013 Legislative Session numerous changes were made to the corporate income tax. Among the significant provisions were: 1) the repeal of special rules for foreign operating corporations, 2) the repeal of the exclusion for foreign royalties, 3) An increase in the minimum fee, 4) a broadened definition of sales to include the sales of no- nexus subsidiaries of corporations subject to Minnesota tax, 5) a change in the Research & Development credit from refundable to non-refundable, and 6) a provision that subjects the income of foreign entities who elect not to be treated as corporations, that are part of a unitary business taxable in Minnesota, and whose income is included in federal taxable to Minnesota tax.

Beginning in tax year 2002, Minnesota required 80 percent of federal "bonus depreciation" be added to taxable income and then deducted in five equal parts over the next five years. The effect of this provision is to negate the revenue loss that would otherwise result from federal "bonus depreciation".

A fee is imposed as a part of the franchise tax liability. The fee is in addition to the regular and alternative minimum tax. The amount of the fee is based on the sum of Minnesota property, payroll and sales. The 2013 Legislature adjusted the fee schedule and indexed the dollar amounts for inflation, based on the consumer price index. The fee schedule for tax year 2017 is shown below:

Fee Basis	Amount of Fee
Less than $970,000	$0
$970,000 to $1,959,999	$200
$1,960,000 to $9,769,999	$590
$9,770,000 to $19,539,999	$1,960
$19,540,000 to $39,079,999	$3,910
$39,089,000 or more	$9,770

Insurance Gross Earnings Tax: A tax is imposed on the gross premium revenue of insurance companies at the following rates:

1.5%	Life insurance
1.26%	Mutual property and casualty companies with assets in excess of $5 million but less than $1.6 billion on 12/31/89.
1.0%	Mutual property and casualty companies with assets less than $5 million; town and farmers′ mutual companies.
1.0%	Health Maintenance Organizations (“HMOs”) and nonprofit health service plan corporations.
3.0%	Surplus line agents.
2.0%	All other insurance.
0.5%	Fire safety surcharge on homeowner′s insurance, commercial fire and commercial nonliability insurance.
2.0%	Surcharge on fire premiums for property located in cities of the first class.

Motor Vehicle Sales Tax: Motor vehicle sales, new and used, are exempt from the sales and use tax, but are subject to a 6.5 percent motor vehicle sales tax. The tax is collected at the time of title registration or transfer. Beginning in Fiscal Year 2012, 100 percent of the collections are dedicated to transportation related funds.

Liquor, Wine and Fermented Malt Beverages Tax: Liquor is taxed at $5.03 per gallon. Wine is taxed at rates that vary from $.30 per gallon to $3.52 per gallon, depending on the alcohol content. Beer is taxed at $2.40 per 31-gallon barrel for beer with alcoholic contents of 3.2 percent by volume or less, and $4.60 per 31-gallon barrel for strong beer.

A tax of 2.5 percent is imposed on alcoholic beverages sold at retail; this is in addition to the 6.875 percent sales tax on alcoholic beverages.

Cigarette and Tobacco Products Tax: The Cigarette tax is $3.04 per pack. The 2017 Legislature repealed the annual inflationary adjustment. In addition, a pack is subject to a tax in lieu of sales tax of 55 cents. The tax on tobacco products is 95 percent of the wholesale price. An electronic cigarette or e-cigarette is a device that simulates smoking tobacco. Electronic cigarettes (“e-cigarettes”) and e-juice (fluid in cartridges used with e-cigarettes, some containing nicotine) are considered tobacco products and are subject to the Tobacco tax.

Estate Tax: The tax base is the federal gross estate less various exemptions and deductions, multiplied by the percentage of the decedent’s total property that has a Minnesota situs. Estate tax rates range from 12% to 16% for decedents dying in 2017 and 13% to 16% for decedents dying in 2018 and thereafter. There is a general state subtraction or exclusion amount equal to $2.1 million for 2017 deaths that rises to $3.0 million for deaths in 2020 and after. Prior to actions of the 2017 Legislature the subtraction was $1.8 million.

Mortgage Tax: A tax of 23 cents is imposed on each $100 dollars of debt secured by real property. 97 percent of the proceeds go to the State’s General Fund and 3 percent to the county in which the property is located.

Deed Tax: A tax of .0033 percent per $500 or $1.65 for increments less than $500 of consideration is imposed on the transfer of real estate by any deed, instrument, or writing. 97 percent of the proceeds go to the State’s General Fund and 3 percent to the county in which the property is located.

Gambling Tax: A 6 percent tax is imposed on the takeout of pari-mutuel horse races at licensed tracks. The takeout is 17 percent of straight pools and 23 percent for multiple pools.

The Stadium Legislation passed in 2012 substantially changed the State’s gambling tax structure. The Stadium Legislation imposes a new tax on net gambling receipts -- gross receipts less prizes paid (see table below). The Stadium Legislation authorizes two new types of electronic charitable gambling: electronic linked bingo and electronic pull tabs.

The new tax structure is as follows**:**

Net Receipts Tax on Existing Bingo, Raffles, Paddlewheels	8.5%
New Net Receipts Tax on All Pull-tabs, All Tip boards Except Sports Tip boards, and Electronic Linked Bingo (taxed on an organization basis)	
Not over $87,500	9.0%
Over $87,500, but not over $122,500	18.0%
Over $122,500, but not over $157,500	27.0%
Over $157,500	36.0%
Sports-themed Tip boards	exempt

Taconite and Iron Ore Occupation Tax: The base of the occupation tax is the value of the ore less expenses required to convert it into marketable quality. Since tax year 2006, the rate of the tax has been 2.45 percent. For purposes of the corporate franchise tax apportionment formula, transfers of ore are deemed to be Minnesota sales.

Health Care Provider Tax: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a $2,815 tax per licensed nursing home bed, a 1.56 percent tax on the net patient revenue of hospitals (excluding Medicare revenue), and a 0.6 percent tax on the total premium revenue of health maintenance organizations.

Other Sources

In addition to the major taxes described above, other sources of non-dedicated revenues include minor taxes, unrestricted grants, certain fees and charges of State agencies and departments, and investment income.

The General Fund receives no unrestricted federal grants. The only federal funds deposited into the General Fund are to reimburse the State for expenditures on behalf of federal programs.

Under the Stadium Legislation, proceeds of certain special sales, liquor, lodging and restaurant taxes imposed by the City of Minneapolis under Minnesota Laws 1986, Chapter 396, as amended, are to be deposited in the General Fund each year from 2021 through 2046 in an aggregate present value amount of $150,000,000, plus certain specified amounts each year for the purpose of paying a portion of annual operating costs and contributions to a capital reserve for the stadium project authorized by the Stadium Legislation.

Tobacco Settlement

On May 8, 1998, the State of Minnesota settled a lawsuit initiated against several tobacco companies. The settlement agreement as amended as of June 1, 2001, (the "Minnesota Agreement"), between the Attorney General of the State and the then-existing four largest United States cigarette manufacturers, Philip Morris, Reynolds Tobacco, Lorillard and B & W (collectively, the "Settling Defendants")[2], requires the Settling Defendants to make annual payments to the State. The payments are to be made at the beginning of the calendar year and are scheduled into perpetuity. These amounts are adjusted based on volume of tobacco products sold and the consumer price index as indicated in the settlement documents. Payments made pursuant to the Minnesota Agreement are made to an account designated in writing by the State, which is an account within the General Fund of the State Treasury. The increased use of e-cigarettes may have an impact on the tobacco revenues.

Pursuant to the Minnesota Agreement, the State agreed to settle all its past, present and future smoking- related claims against the Settling Defendants in exchange for agreements and undertakings by the Settling Defendants concerning a number of issues. These issues include, among others, making payments to the State, abiding by more stringent advertising restrictions, funding educational programs, ensuring public access to court documents and files and requiring disclosure of certain payments to lobbyists, all in accordance with the terms and conditions set forth in

[2] On January 5, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities and operations of B & W with those of Reynolds Tobacco, which occurred on June 30, 2004. References herein to the "Settling Defendants" mean, for the period prior to June 30, 2004, collectively, Philip Morris, Reynolds Tobacco, B & W and Lorillard and for the period on and after June 30, 2004, collectively Philip Morris, Reynolds American and Lorillard. On June 12, 2015, Reynolds American Inc. acquired Lorillard by way of merger, and in a related divestiture, certain of the settling Defendants' cigarette brands were sold to ITG Brands, LLC. ITG Brands, LLC has proposed to join the Minnesota Agreement with respect to sales of cigarettes of the transferred brands. There have been discussions concerning joinder between ITG Brands, Inc., the State of Minnesota, and the remaining Settling Defendants.

the Minnesota Agreement.

The Minnesota Agreement requires that the Settling Defendants make two types of payments, "Initial Payments" due in the years 1998 through 2003 and "Annual Payments due in 1998 and continuing in perpetuity, which historical payments are set forth in the table that follows, as well as certain court-administered payments. The base amount of these payments (with the exception of the up-front Initial Payments) are subject to certain adjustments (including those for inflation and volume), which could be material.

Payments required to be made by the Settling Defendants are calculated by reference to the Settling Defendants' respective share of sales of cigarettes (which in practice have been measured by shipments) by unit for consumption in the United States (excluding Puerto Rico). Payments to be made by the Settling Defendants are recalculated each year, based on the market share of each individual Settling Defendant for the prior year. A significant loss of market share by the Settling Defendants could have a material adverse effect on the payments by the Settling Defendants under the Minnesota Agreement. The Minnesota Agreement does not contain any terms providing for a process to dispute the calculation of Annual Payments or any adjustments to such payments. To date, neither the Settling Defendants nor the State have disputed any of the calculations of payments under the Minnesota Agreement.

As required, the Settling Defendants have made all of the Initial Payments and have made Annual Payments from 1998 through 2017 and certain other amounts pursuant to the Minnesota Agreement totaling approximately $4.330 billion to date.

	Unadjusted Minnesota Agreement Applicable Base Payment	**State's Actual Receipts[(1)]**
Up-Front Initial Payment†	$240,000,000	$240,000,000
1999 Initial Payment†	220,800,000	220,800,000
2000 Initial Payment	242,550,000	221,784,750
2001 Initial Payment	242,550,000	220,885,523
2002 Initial Payment	242,550,000	215,007,990
2003 Initial Payment	121,550,000	107,669,822
FY1999 Annual Payment†	102,000,000	102,000,000
FY2000 Annual Payment	114,750,000	104,925,995
FY2001 Annual Payment	127,500,000	145,136,835[(2)]
FY2002 Annual Payment	165,750,000	161,022,719
FY2003 Annual Payment	165,750,000	157,711,642
FY2004 Annual Payment	204,000,000	168,566,764
FY2005 Annual Payment	204,000,000	175,488,332
FY2006 Annual Payment	204,000,000	180,789,740
FY2007 Annual Payment	204,000,000	183,911,438
FY2008 Annual Payment	204,000,000	184,410,711
FY2009 Annual Payment	204,000,000	179,854,486
FY2010 Annual Payment	204,000,000	168,297,369
FY2011 Annual Payment	204,000,000	169,375,081
FY2012 Annual Payment	204,000,000	166,861,093
FY2013 Annual Payment	204,000,000	170,060,090
FY2014 Annual Payment	204,000,000	175,398,533
FY2015 Annual Payment	204,000,000	170,746,036
FY2016 Annual Payment	204,000,000	171,238,161
FY2017 Annual Payment	204,000,000	168,226,161

† Not subject to the Inflation Adjustment or the Volume Adjustment. Deposited in a cessation account administered by the Court, as permitted in the Minnesota Agreement and required by the Consent Judgment, to provide cessation opportunities to Minnesota smokers.

[(1)] As reported by the State and to the best of the State's knowledge, amounts reflect the State's actual receipts, including applicable adjustments.

[(2)] Includes $29,025,087 paid by the Settling Defendants on June 11, 2001 pursuant to the 2001 Amendment.

CASH FLOW INFORMATION

The Statutory General Fund is established in Minnesota Statutes, Section 16A.671, subdivision 3a, and is defined as follows:

> "…all cash and investments from time to time received and held in the treasury, except proceeds of State bonds and amounts received and held in special or dedicated funds created by the constitution, or by or pursuant to federal laws or regulations, or by bond or trust instruments, pension contracts, or other agreements of the State or its agencies with private persons, entered into under State law."

The General Fund, special revenue funds, internal service funds, enterprise funds and capital projects funds make up the Statutory General Fund. Cash contained in the Statutory General Fund is available for State cash flow purposes.

Major special revenue funds included in the Statutory General Fund include the Petro Tank Release, the State Airports, the Game and Fish, the Workforce Development, the Tobacco Use Prevention, the Workers Compensation, the Environmental Waste and the Northeast Minnesota Economic Development funds.

Internal service funds, enterprise funds and capital project funds included in the Statutory General Fund include Minnesota State, General Projects, Risk Management, Lottery Cash Flow and State Operated Services Funds.

The estimated vs. actual revenues and expenditures are monitored to ensure adequate cash flow. There are more than 80 funds within the Statutory General Fund. MMB manages short-term intra-fund borrowing within the Statutory General Fund, balancing the cash needs of various programs with actual daily receipts and disbursements.

The State may, subject to certain limitations, issue certificates in anticipation of the collection of taxes levied for and other revenue appropriated to the Statutory General Fund for expenditure during the biennium. Minnesota Statutes, Section 16A.671, authorizes the Commissioner to sell certificates of indebtedness in the following manners:

- advertising for competitive bids;
- negotiating contracts with banks in or out of State to establish lines of credit;
- negotiating contracts with firms of underwriters that will purchase or act as agents in the placement of certificates of indebtedness;
- entering into contracts with banks in or out of State to authenticate, issue, pay principal and interest on, cancel, and otherwise deal as fiscal agents of the State with certificates of indebtedness issued as outlined above; and
- selling certificates of indebtedness to the State Board of Investment without advertising for bids.

The tables on the following pages show the projections of monthly Statutory General Fund cash flows for FY 2017, FY 2018 and FY 2019 based on the February 2017 Forecast and preliminary end of 2017 Legislative Sessions budget estimates. The table for FY 2017 represents actual Statutory General Fund cash flow balances through June 30, 2017. The table for FY 2018 and FY 2019 represents projected Statutory General Fund cash flow balances for each of the fiscal years. The projected monthly cash flow analyses have been formatted to include transfers in and transfers out to more accurately reflect State operations. The payment of debt service is included in transfers out for each fiscal year. Please note that monthly cash flow projections are subject to a high level of variability. Projected Statutory General Fund cash flow for FY 2018 and FY 2019 indicates that the State will be able to maintain positive cash balances for the Current Biennium without special administrative actions or access to external borrowing.

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
ACTUALS FOR FISCAL YEAR ENDED JUNE 30, 2017

($'s in Thousands)

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	FY17 Total
	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	
Beginning Cash Balance	6,362,555	5,566,541	4,403,752	4,724,885	4,811,876	5,262,362	5,026,900	5,822,710	5,274,542	4,872,691	5,376,541	5,344,953	
Individual Income Tax	803,665	686,019	1,147,485	716,376	665,158	1,084,077	1,362,290	443,710	732,184	1,636,371	587,596	1,108,600	10,973,530
Corporate Tax	(86,907)	21,905	272,771	53,759	12,965	223,983	12,066	26,834	219,241	139,151	33,067	270,499	1,199,333
Sales Tax	154,884	487,461	489,858	505,858	449,583	435,604	555,411	393,520	357,262	433,887	447,746	788,810	5,499,884
Property Tax	20,693	(0)	0	178,395	166,043	22,104	5,915	161	0	480	241,755	218,806	854,351
Tobacco Tax	3,240	77,894	61,295	55,049	55,421	68,732	122,219	22,122	27,592	28,819	34,129	128,032	684,544
Insurance Tax	1,499	12,623	91,000	161	6,578	95,866	1,995	20,324	125,397	1,861	6,752	101,967	466,022
Excise Tax	176,183	86,533	103,337	183,793	92,070	93,105	192,467	113,237	91,500	174,770	128,557	122,615	1,558,167
Investment Earnings	3,797	4,909	3,740	3,045	4,164	5,353	3,347	5,793	4,724	4,846	4,842	5,491	54,052
Interagency Grants	14,156	19,857	19,069	9,837	5,998	10,103	8,575	18,497	11,908	35,434	9,191	15,636	178,260
Other Revenue	343,868	378,703	421,879	217,412	274,873	541,425	407,534	303,365	319,296	319,589	273,612	351,503	4,153,059
Total Revenue	1,435,076	1,775,905	2,610,434	1,923,683	1,732,853	2,580,351	2,671,820	1,347,562	1,889,105	2,775,207	1,767,247	3,111,957	25,621,202
Transfer In	1,573,449	592,450	227,796	97,594	104,306	79,408	73,964	116,844	203,848	92,932	85,056	178,807	3,426,453
Total Sources	3,008,525	2,368,355	2,838,230	2,021,277	1,837,159	2,659,759	2,745,784	1,464,406	2,092,953	2,868,139	1,852,303	3,290,765	29,047,655
Compensation	284,206	283,044	405,460	288,645	288,702	292,830	286,687	295,583	418,328	301,426	303,326	296,869	3,745,105
Agency Operations	288,491	232,157	193,746	165,883	136,112	263,268	188,936	117,010	246,691	183,188	194,778	229,114	2,439,373
Aid to Schools	202,596	1,255,297	848,223	528,722	206,892	697,489	853,918	865,320	1,030,875	1,001,122	823,298	407,966	8,721,717
Aid to Cities & Towns	288,699	15,997	91,493	20,412	12,254	287,318	26,648	10,526	8,922	10,397	(7,870)	10,740	775,535
Aid to Counties	171,265	36,546	39,100	28,937	26,416	145,933	10,650	14,034	15,066	12,390	29,690	14,916	544,944
Aid to Higher Ed	82,654	134,811	81,831	61,065	59,424	88,923	134,512	75,417	63,165	104,879	88,069	68,460	1,043,209
Aid to Non-Gov't	26,594	23,746	27,898	22,272	22,843	20,302	29,561	23,431	28,949	41,284	22,724	26,302	315,905
Aid to Other Gov't	17,846	17,169	29,497	14,957	12,093	11,146	11,354	14,867	1,718	10,309	10,376	9,091	160,421
DHS Payments to Individuals	729,755	509,348	436,525	653,823	433,883	442,577	302,422	459,730	458,965	584,972	264,480	313,295	5,589,774
Other Aid to Individuals	54,364	237,039	237,948	36,010	21,379	21,370	10,320	6,195	10,971	8,354	4,717	4,700	653,367
Other Expenditures	10,653	17,635	9,801	25,014	7,772	12,846	16,154	11,265	12,680	10,754	23,586	8,264	166,426
Total Expenditures	2,157,123	2,762,789	2,401,522	1,845,740	1,227,772	2,284,002	1,871,162	1,893,377	2,296,330	2,269,073	1,757,172	1,389,716	24,155,777
Transfer Out	1,647,417	768,356	115,576	88,545	158,900	82,005	78,813	119,197	198,475	95,215	126,719	168,837	3,648,055
Transfer Out Debt Service	0	0	0	0	0	529,215	0	0	0	0	0	0	529,215
Total Uses	3,804,540	3,531,144	2,517,097	1,934,286	1,386,672	2,895,221	1,949,975	2,012,574	2,494,805	2,364,289	1,883,891	1,558,554	28,333,048
Sources Less Uses	(796,015)	(1,162,789)	321,132	86,991	450,487	(235,462)	795,809	(548,168)	(401,851)	503,850	(31,587)	1,732,211	714,609
High Point	6,368,537	5,666,342	5,249,277	5,041,228	5,262,361	5,145,075	6,361,032	6,141,052	5,461,678	5,950,557	5,460,418	7,077,165	
Low Point	5,520,791	4,403,751	4,053,927	4,087,561	4,629,337	4,231,209	4,513,391	5,274,540	4,713,979	4,144,202	4,798,345	5,217,282	
Ending Cash Balance	5,566,540	4,403,752	4,724,884	4,811,876	5,262,362	5,026,900	5,822,709	5,274,542	4,872,690	5,376,541	5,344,954	7,077,164	

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
ESTIMATES FOR FISCAL YEAR ENDING JUNE 30, 2018
($'s in Thousands)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	FY18 Total
	Act	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	
Beginning Cash Balance	7,077,164	5,749,284	4,758,982	4,949,441	4,867,560	4,537,439	4,800,034	5,777,567	4,943,058	4,436,093	5,071,660	4,845,929	
Individual Income Tax	702,244	783,216	1,123,914	779,935	726,530	1,078,401	1,482,833	458,937	619,832	1,920,701	769,532	1,268,329	11,714,403
Corporate Tax	52,356	29,764	271,224	50,053	11,267	230,260	34,166	11,347	314,612	79,959	42,091	150,661	1,277,759
Sales Tax	218,994	526,454	496,782	494,366	458,923	440,439	549,308	406,170	377,274	442,050	431,136	654,840	5,496,737
Property Tax	16,391	0	0	172,107	172,107	20,489	4,098	(0)	(0)	0	227,062	218,652	830,905
Tobacco Tax	2,016	72,184	54,644	56,409	49,794	75,172	116,118	17,668	17,995	38,591	50,475	96,771	647,838
Insurance Tax	2,110	7,371	103,585	637	3,860	111,964	1,314	23,110	115,786	820	3,961	99,633	474,153
Excise Tax	136,451	121,040	79,360	179,054	101,380	92,339	187,556	113,842	100,831	184,620	113,933	158,090	1,568,496
Investment Earnings	1,991	2,272	2,333	2,298	3,026	1,584	3,167	1,662	2,579	2,742	2,769	2,772	29,196
Interagency Grants	5,506	5,909	4,162	4,762	9,730	16,442	6,482	6,779	6,057	11,433	6,711	14,771	98,744
Other Revenue	320,259	382,638	403,048	261,736	247,920	437,533	597,309	223,148	264,474	382,914	264,514	294,786	4,080,280
Total Revenue	1,458,318	1,930,846	2,539,053	2,001,359	1,784,538	2,504,624	2,982,351	1,262,664	1,819,440	3,063,829	1,912,185	2,959,305	26,218,510
Transfer In	1,548,409	583,744	205,271	85,627	95,430	127,989	65,341	82,745	163,532	68,477	69,176	49,471	3,145,212
Total Sources	3,006,727	2,514,591	2,744,324	2,086,986	1,879,969	2,632,613	3,047,692	1,345,409	1,982,972	3,132,306	1,981,360	3,008,775	29,363,722
Compensation	302,492	292,041	372,860	342,525	300,313	316,163	301,411	309,198	393,332	368,182	309,037	308,620	3,916,175
Agency Operations	287,259	264,754	182,243	211,523	185,540	119,482	237,207	177,342	154,345	232,617	140,500	183,668	2,376,481
Aid to Schools	266,848	1,325,513	882,315	520,196	217,631	736,346	898,047	889,184	1,101,622	1,071,659	883,942	429,573	9,222,877
Aid to Cities & Towns	301,052	9,827	87,536	15,003	20,190	300,151	15,667	7,665	12,186	7,142	12,901	7,767	797,087
Aid to Counties	189,194	26,521	32,064	46,744	22,400	164,756	13,837	16,803	8,832	22,287	16,595	14,855	574,888
Aid to Higher Ed	85,295	141,077	80,577	65,780	77,253	64,566	150,846	75,044	69,582	86,934	66,007	66,345	1,029,307
Aid to Non-Gov't	14,524	15,094	17,298	13,516	14,060	11,573	13,079	14,014	18,531	49,259	18,180	11,112	210,240
Aid to Other Gov't	22,806	13,182	31,612	16,646	10,071	4,175	18,815	15,633	7,603	2,834	13,593	9,164	166,135
DHS Payments to Individuals	1,074,413	511,247	490,063	753,465	537,525	502,204	309,756	533,777	514,905	543,156	562,907	454,611	6,788,031
Other Aid to Individuals	147,776	244,448	265,988	91,261	39,258	16,767	17,141	36,822	36,436	19,029	77,026	73,220	1,065,172
Other Expenditures	7,505	31,191	17,012	15,358	7,928	13,297	14,875	12,437	15,020	12,293	13,387	12,332	172,634
Total Expenditures	2,699,165	2,874,895	2,459,569	2,092,016	1,432,169	2,249,481	1,990,683	2,087,920	2,332,394	2,415,392	2,114,075	1,571,268	26,319,027
Transfer Out	1,635,442	629,997	94,296	76,851	211,407	120,537	79,476	91,998	157,542	81,347	93,017	102,636	3,374,546
Transfer Out Debt Service	0	0	0	0	566,513	0	0	0	0	0	0	0	566,513
Total Uses	4,334,607	3,504,892	2,553,865	2,168,867	2,210,089	2,370,018	2,070,159	2,179,918	2,489,936	2,496,739	2,207,091	1,673,904	30,260,086
Sources Less Uses	(1,327,880)	(990,301)	190,459	(81,882)	(330,121)	262,595	977,533	(834,509)	(506,965)	635,567	(225,731)	1,334,872	(896,364)
High Point	7,181,614	5,809,529	5,538,836	5,557,131	5,579,582	5,073,272	6,147,036	5,842,700	5,123,496	5,903,870	5,370,015	6,269,630	
Low Point	5,749,284	4,678,055	4,468,935	4,702,923	4,537,439	4,564,689	4,882,719	4,943,058	4,436,093	4,007,220	4,486,518	4,892,013	
Ending Cash Balance	5,749,284	4,758,982	4,949,441	4,867,560	4,537,439	4,800,034	5,777,567	4,943,058	4,436,093	5,071,660	4,845,929	6,180,800	

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2017 LEGISLATIVE SESSIONS WITH JUNE 26 DISTRICT COURT ORDER
ESTIMATES FOR FISCAL YEAR ENDING JUNE 30, 2019

($'s in Thousands)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	FY19 Total
	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	
Beginning Cash Balance	6,180,800	5,146,433	4,082,578	4,175,524	4,148,060	3,725,007	3,955,599	4,818,339	3,952,227	3,422,579	4,151,251	5,073,198	
Individual Income Tax	782,478	818,134	1,160,500	808,593	776,777	1,137,424	1,591,664	485,174	657,490	2,052,977	883,794	1,280,991	12,435,996
Corporate Tax	56,241	33,651	279,160	51,742	13,952	236,950	37,697	14,082	328,303	86,442	44,544	160,433	1,343,198
Sales Tax	225,661	548,566	521,268	518,211	484,127	465,699	579,653	428,184	394,011	466,335	456,847	688,274	5,776,837
Property Tax	16,132	0	0	169,383	169,383	20,165	4,033	0	0	0	222,116	213,889	815,101
Tobacco Tax	1,272	71,971	54,289	56,119	49,457	74,874	115,850	17,282	17,642	38,275	50,155	96,591	643,775
Insurance Tax	2,154	7,524	106,109	652	3,945	114,807	1,364	27,068	116,748	874	4,103	103,142	488,489
Excise Tax	142,984	121,950	81,004	190,611	94,846	95,746	193,999	111,636	103,792	195,563	106,829	159,738	1,598,699
Investment Earnings	2,122	3,377	1,597	3,419	2,496	2,561	2,717	1,591	2,851	4,570	3,100	1,585	31,985
Interagency Grants	2,144	3,018	1,382	1,814	3,005	4,458	2,302	2,429	2,029	5,606	1,464	3,787	33,437
Other Revenue	362,655	395,291	382,171	275,773	238,495	452,453	608,103	191,204	277,742	407,580	259,340	273,014	4,123,822
Total Revenue	1,593,842	2,003,482	2,587,480	2,076,318	1,836,482	2,605,138	3,137,382	1,278,650	1,900,607	3,258,221	2,032,293	2,981,445	27,291,339
Transfer In	1,651,209	346,531	95,294	96,880	104,702	152,067	17,116	94,747	75,170	79,397	82,237	71,952	2,867,300
Total Sources	3,245,051	2,350,013	2,682,774	2,173,197	1,941,184	2,757,205	3,154,498	1,373,397	1,975,777	3,337,617	2,114,530	3,053,396	30,158,639
Compensation	307,686	442,425	301,711	283,771	305,146	322,574	377,296	315,212	400,368	305,364	314,717	314,547	3,990,816
Agency Operations	320,027	252,576	199,216	226,177	174,988	134,411	251,259	170,577	157,826	242,497	136,970	190,241	2,456,764
Aid to Schools	275,743	1,367,905	911,133	537,074	225,466	760,164	927,080	917,871	1,137,089	1,107,265	912,248	443,795	9,522,831
Aid to Cities & Towns	301,765	15,410	90,469	16,012	19,864	300,194	18,324	4,761	12,224	7,763	12,311	86,819	885,916
Aid to Counties	186,707	30,493	33,029	49,036	22,690	179,858	16,437	14,475	9,965	23,648	16,146	15,053	597,536
Aid to Higher Ed	85,628	159,665	61,096	67,101	74,458	84,880	139,437	68,635	68,659	87,580	65,835	68,809	1,031,785
Aid to Non-Gov't	17,084	17,619	16,373	15,655	13,472	12,320	15,215	14,511	18,557	53,597	17,540	11,408	223,351
Aid to Other Gov't	22,357	13,645	28,182	14,253	9,552	11,413	14,848	11,730	7,404	9,315	11,865	1,880	156,444
DHS Payments to Individuals	997,060	539,298	538,526	777,210	570,292	534,984	350,537	562,854	554,490	645,206	(514,486)	305,323	5,861,293
Other Aid to Individuals	203,620	249,679	275,824	99,791	33,557	21,606	12,851	37,327	37,063	18,650	89,371	61,618	1,140,957
Other Expenditures	20,828	30,998	22,034	20,294	10,761	16,739	21,191	16,848	16,999	17,365	18,129	13,860	226,047
Total Expenditures	2,738,506	3,119,713	2,477,594	2,106,374	1,460,244	2,379,144	2,144,474	2,134,801	2,420,644	2,518,249	1,080,646	1,513,352	26,093,741
Transfer Out	1,540,913	294,155	112233.803	94,288	315,205	147,469	147,284	104,708	84,781	90,696	111,937	168,537	3,212,205
Transfer Out Debt Service	0	0	0	0	588,788	0	0	0	0	0	0	0	588,788
Total Uses	4,279,418	3,413,868	2,589,828	2,200,662	2,364,237	2,526,612	2,291,758	2,239,509	2,505,424	2,608,946	1,192,583	1,681,888	29,894,734
Sources Less Uses	(1,034,367)	(1,063,855)	92,946	(27,464)	(423,053)	230,592	862,740	(866,112)	(529,648)	728,672	921,947	1,371,508	263,905
High Point	6,274,888	5,248,402	4,905,246	4,688,976	4,845,704	4,274,218	5,185,852	4,747,075	4,259,856	5,139,734	5,425,681	6,644,388	
Low Point	5,054,662	4,082,578	4,031,208	3,877,327	3,725,007	3,701,675	4,065,410	3,952,227	3,402,391	3,258,873	3,900,940	5,051,735	
Ending Cash Balance	5,146,433	4,082,578	4,175,524	4,148,060	3,725,007	3,955,599	4,818,339	3,952,227	3,422,579	4,151,251	5,073,198	6,444,705	

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of approximately 12,000 miles of highways, 4,500 bridges of ten-foot spans or longer, and 1,075 maintenance, enforcement, service, and administrative buildings at 334 sites. Minnesota has 916 miles of interstate highways, all of which are part of the State trunk highway system. Total highway mileage, including roads and streets under local jurisdiction, is almost 143,000 miles.

The State trunk highway system is constructed and maintained by the Minnesota Department of Transportation ("MnDOT"). Construction work is contracted to private construction contractors on a competitive basis, while maintenance is performed by MnDOT employees. Maintenance includes routine patching; short overlays; snow and ice control; and traffic services such as signing, paint striping, etc.

Trunk Highway Fund

The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for payment of principal and interest on trunk highway bonds. Article XIV provides that the payment of principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95 percent of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62 percent to the Trunk Highway Fund, 29 percent to the County State Aid Highway Fund, and 9 percent to the Municipal State Aid Street Fund. The remaining 5 percent of Highway User Tax Distribution Fund revenues are distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the distribution formula may be made within six years of the last previous change. The current distribution formula was established in the 1998 Legislative Session. During the 2017 Legislative Sessions there were changes made to the formulas prescribing how the amounts deposited to the County State Aid Highway Fund are distributed to individual counties.

In 2017, the Legislature statutorily dedicated several transportation related revenues, deposited in the General Fund under current law, to the Highway User Tax Distribution Fund. The General Fund transfers consist of a fixed portion of the sales tax on auto parts, the motor vehicle rental tax of 9.2 percent, the motor vehicle rental sales tax of 6.5 percent, and 11 percent of the motor vehicle lease sales tax ("MVLST"). In Fiscal Year 2018, these revenues are estimated to generate $83.5 million in the Highway User Tax Distribution Fund, with a corresponding transfer of $49.2 million to the Trunk Highway Fund. In Fiscal Year 2019, these revenues are estimated to generate $90.0 million in the Highway User Tax Distribution Fund, with a corresponding transfer of $53.0 million to the Trunk Highway Fund. Due to statutory increases in the fixed portion of the sales tax on auto parts, these new revenues increase to $206.5 million in FY 2020 in the Highway User Tax Distribution Fund (corresponding $121.6 million transfer to Trunk Highway Fund), and $208.6 million in FY 2021 in the Highway User Tax Distribution Fund (corresponding $122.9 million transfer to Trunk Highway Fund).

In addition to distributions from the Highway User Tax Distribution Fund, the Trunk Highway Fund receives revenue from deposits of federal aid reimbursements, investment income, and miscellaneous fees and reimbursements. A Minnesota motor fuel tax is collected on all fuel used to propel vehicles on the public roads of the State and includes gasoline, diesel fuel, and other special fuels. In 2008 the Legislature approved $1.8 billion in Trunk Highway bonds to be appropriated initially over a 10 year period, subsequently reduced to eight years in Laws of 2010, Chapter 190. The debt service on these bonds is to be paid from motor fuel tax increases which were phased in over several years. The final tax rate increase of a half cent was implemented on July 1, 2012, (for a total rate of 28.5 cents per gallon of which 3.5 cents is to be used for debt service) and is expected to be in place through at least Fiscal Year 2040, the anticipated duration of debt service on the Trunk Highway bonds. The following table shows the motor fuel tax rate changes passed by the 2008 Legislature:

2008 LEGISLATIVE SESSION MOTOR FUEL TAX RATE CHANGES
Base Rate: Twenty Cents/Gallon

Fiscal Year	Effective Date	Increase (Cents/Gallon)	New Effective Rate (Cents/Gallon)
2008	Apr-08	2.0	22.0
2009	Aug-08	0.5	22.5
2009	Oct-08	3.0	25.5
2010	Jul-09	1.6	27.1
2011	Jul-10	0.4	27.5
2012	Jul-11	0.5	28.0
2013	Jul-12	0.5	28.5

For some special fuels the rate is different than gasoline and diesel and is based on the equivalent energy content of the fuel compared to gasoline.

Revenue from motor fuels taxes was $899 million to the Highway User Tax Distribution Fund in Fiscal Year 2016, after refunds. Of this amount, $516 million was transferred to the Trunk Highway Fund. MnDOT's current forecast estimates collections of $911 million, after refunds, in Fiscal Year 2017 to the Highway User Tax Distribution Fund, with a resulting transfer of $521 million to the Trunk Highway Fund.

Motor vehicle registration taxes consist of taxes on passenger vehicles and on trucks. For passenger vehicles the tax is $10 plus 1.25 percent times a declining percentage of the original value of the vehicle based upon registration year. For vehicles newly registered in 2009 or later, the new statutory schedule is automatically applied, which contains no tax caps. For vehicles previously registered before 2009, the new tax schedule is only applied if the amount calculated is less than the vehicle registration amount paid in the previous year; otherwise the registration amount is equal to the previous year's registration tax. The minimum tax is $35. Motor vehicle registration taxes for trucks are based on the weight and age of the vehicles, with the maximum tax being $1,760 for trucks registered at 80,000 pounds that are less than nine years old. Trucks registered at a weight greater than 80,000 pounds pay an additional $50 per ton of registered weight. Motor vehicle registration taxes generated $702 million in Fiscal Year 2016, after refunds, of which $414 million was transferred to the Trunk Highway Fund. MnDOT estimates collections to be $762 million in Fiscal Year 2017 to the Highway User Tax Distribution Fund, with a resulting transfer of $448 million to the Trunk Highway Fund.

The State levies a sales tax of 6.5 percent on motor vehicles ("MVST"). In November 2006, voters approved a constitutional amendment phasing in dedication of all MVST for transportation purposes over five years, starting July 1, 2007, (FY 2008). The 2009 Legislature modified the percent of motor vehicle sales tax distribution for the FY 2014-2015 Biennium. The following table shows percent and forecast amount, if available, to each of the recipient funds for this revenue source.

MOTOR VEHICLE SALES TAX DEDICATION
END OF 2017 LEGISLATIVE SESSIONS
($'s in Millions)

	Highway User Tax Distribution Fund		General Fund		Transit Assistance Fund	
Year	Percent	Forecasted Amount	Percent	Forecasted Amount	Percent	Forecasted Amount
2008	38.25%	$196.1*	36.25%	$176.5*	25.50%	$130.7*
2009	44.25%	195.5*	26.25%	116.8*	29.50%	130.3*
2010	47.50%	216.7*	16.25%	74.1*	36.25%	162.8*
2011	54.50%	276.1*	6.25%	31.6*	39.25%	197.4*
2012	60.00%	335.4*	0.00%	0	40.00%	223.6*
2013	60.00%	358.7*	0.00%	0	40.00%	239.1*
2014	60.00%	384.2*	0.00%	0	40.00%	256.1*
2015	60.00%	416.6*	0.00%	0	40.00%	277.7*
2016	60.00%	428.8*	0.00%	0	40.00%	285.7*
2017	60.00%	453.4	0.00%	0	40.00%	302.2

*Actual

Activity in the Trunk Highway Fund for the Current Biennium is detailed below:

CURRENT BIENNIUM
END OF 2017 LEGISLATIVE SESSIONS
ESTIMATED REVENUES AND EXPENDITURES
TRUNK HIGHWAY FUND
($'s In Thousands)

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2019	Current Biennium
Estimated Resources			
Balance Forward from Prior Year	$170,418	$91,972	$170,418
Revenues			
Federal Grants	627,675	558,175	1,185,850
Departmental Earnings	11,676	11,676	23,352
Investment Income	12,652	18,445	31,097
Other Income	31,395	31,395	62,790
Total Revenues	$683,398	$619,691	$1,303,089
Transfers from Other Funds			
General Fund Reimbursement	3,658	3,658	7,315
Hwy Users Tax Distribution Fund	1,324,149	1,364,377	2,688,526
Plant Management Fund	1,304	1,304	2,608
Total Transfers	1,329,111	1,369,339	2,698,450
Total Resources Available	$2,182,927	$2,081,002	$4,171,957
Estimated Uses			
Expenditures			
Transportation			
MnDOT	$1,768,549	$1,632,122	$3,400,671
Public Safety	107,827	111,877	219,704
Subtotal-Transportation	1,876,376	1,743,999	3,620,375
Total Expenditures	$1,876,376	$1,743,999	$3,620,375
Transfers to Other Funds			
Debt Service Fund	214,579	232,870	447,449
Total Transfers	214,579	232,870	447,449
Total Uses	$2,090,955	$1,976,869	$4,067,824
Undesignated Fund Balance	$91,972	$104,133	$104,133

The estimated expenditures for State road construction for the Current Biennium include the use of State funds to advance the federal portion of certain projects under a method generally known as "advance construction."

Federal advance construction is a financing method authorized by the Federal Highway Administration. It allows a state to encumber the necessary funds to begin construction of federal-aid projects before the authorized federal funds are available for those projects. Advance construction uses State trunk highway funds to "advance" federal project construction costs on projects for which federal funds have been authorized but not yet appropriated for the current fiscal year. The Trunk Highway Fund advances are later repaid during the year in which the funds are appropriated by Congress. The receivable for the advance is recognized in the year the project is encumbered. The

appropriated amount of federal aid for a State fiscal year is then reduced by all advance construction conversions in that State fiscal year and increased by all new advance construction in that year.

Beginning in Fiscal Year 2005, transportation projects financed with bond proceeds were segregated into a capital projects fund. This fund accounts for bond proceeds, construction expenditures and program delivery paid with bond proceeds only. The State typically encumbers, and consequently reserves fund balance, for the full contract amount of transportation projects when awarded. However, bond revenues supporting these projects are not recorded until the bonds are sold. Because of the timing of receipts of bond proceeds and related capital expenditures, there may be temporary deficits in unreserved fund balance.

Capital Needs of the Trunk Highway System

The State manages the capital maintenance and upgrading of the trunk highway system, in partnership with the Federal Highway Administration. It uses a planning process that includes a statewide transportation plan, updated every five years (Minnesota 20-Year State Highway Investment Plan, or "MnSHIP", most recently completed in 2017), and a statewide Transportation Improvement Program ("STIP"), which details all highway construction and maintenance projects that are capital in nature. Projects included in the STIP range from major construction, involving building new highways or rebuilding highways that add additional traffic capacity, to less substantive improvements such as resurfacing existing highways.

See APPENDIX D for a list of bond authorizations to be included in the Series 2017B Bonds.

The following table shows the most recent legislative bond authorizations for trunk highway improvements. See APPENDIX C, the table of "GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED"

Legislature	Authorizations ($ in Millions)	Purpose
2007	$ 20.0	Highway Flood Damage
2008	1,783.3	Trunk Highway Improvements
2009	40.0	Trunk Highway Interchanges
2009	2.7	Reconstruction and Repair of Trunk Highways and Bridges in Flood Areas
2010	100.1	Trunk Highway Construction and Interchanges
2010	26.4	Trunk Highway Capital Improvements
2012	16.1	Trunk Highway Capital Improvements
2012	35.0	Highway Flood Damage
2013	300.0	Corridors of Commerce
2015	140.0	Trunk Highway Capital Improvements
2017	940.0	Corridors of Commerce & Trunk Highway Capital Improvements
Total:	$ 3,403.6	

The table below depicts the commitments for highway construction and related purposes associated with the appropriations made by the Legislature for the Current Biennium. The last item in the table, "Program Delivery," is included to show the anticipated use of bond funds in the Current Biennium for that purpose. Program delivery expenditures will also be made from other portions of MnDOT's budget.

CURRENT BIENNIUM
END OF 2017 LEGISLATIVE SESSIONS
TRUNK HIGHWAY IMPROVEMENT PROGRAM
ANTICIPATED ENCUMBRANCES
($'s in Millions)

Improvement Category	Trunk Highway and Federal Funds	Bond Funds	Total
Major Construction [1]	$1,328.3	$360.8	$1,689.1
Safety	120.4	-	120.4
Traffic Management	11.1	-	11.1
Municipal Agreements	40.3	-	40.3
Right of Way	60.3	-	60.3
Miscellaneous Agreements	316.7	-	316.7
Program Delivery	100.0	36.1	136.1
Total [2]	$1,977.1	$396.9	$2,374.0

[1] The Major Construction Category includes the following activities: Reconstruction, Bridge Replacement, Bridge Repairs, Reconditioning, Resurfacing, and Road Repair.

[2] The total encumbrances, excluding the amount provided by bond funds, reflects forecast amounts of $825.6 million of State highway revenues and $1,151.5 million of federal funds. Totals may not foot due to rounding.

CURRENT BIENNIUM
TRUNK HIGHWAY AND TRUNK HIGHWAY BOND FUND
CASH EXPENDITURES FORECAST
($'s in Millions)

Category	Trunk Highway Fund	Trunk Highway Bond Fund	Total
Major Construction[1]	$1,673.7	$271.8	$1945.5
Safety	84.3	-	84.3
Traffic Management	-	-	-
Agreements and Miscellaneous	107.8	-	107.8
Right of Way	49.6	-	49.6
Program Delivery	21.6	27.2	48.8
Total	$1,937.0	$299.0	$2,236.0

[1] The Major Construction Category includes the following activities: Reconstruction, Bridge Replacement, Bridge Repairs, Reconditioning, Resurfacing, and Road Repair.

TRUNK HIGHWAY HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2014 through 2016. The revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such fiscal years. Beginning balances or deficits are not included. The actual expenditures set forth in the table on the following page are presented by expenditure account.

TRUNK HIGHWAY FUND
COMPARATIVE STATEMENT OF REVENUES, AND EXPENDITURES
($'s in Thousands)
UNAUDITED

	Fiscal Year Ended June 30 [1]		
	2014	**2015**	**2016**
Revenues:			
Taxes:(2)			
Motor Fuel	$514,385	$517,130	$524,340
Motor Vehicle	397,970	419,236	419,699
Motor Vehicle Sales Tax	226,741	248,719	267,254
Less: Revenue Refunds	(31,378)	(27,055)	(28,871)
Net Taxes	$1,107,717	$1,158,029	$1,182,423
Federal Grant Agreements	506,527	498,560	426,391
Penalties & Fines	4,958	4,390	5,154
Investment Income	3,441	4,157	4,558
Local Government Contracts	10,933	26,418	16,578
Other Revenue	19,505	25,854	16,956
TH Revenue Refunds	0	8	4
Total Revenues	$1,653,081	$1,717,417	$1,652,065
Expenditures:			
Personnel Services	$446,312	$453,502	$461,759
Purchased Services	128,158	150,691	153,676
Materials and Supplies	100,194	96,700	76,009
Capital Outlay:			
Equipment	27,931	53,939	26,516
Capital Outlay & Real Property(3)	732,026	978,639	657,184
Grants and Subsidies:			
Individuals	19	29	8
Counties	136	299	202
Cities	-	34	44
Other Grants	939	963	857
All Other	25,575	22,645	24,660
Total Expenditures	$1,461,290	$1,757,440	$1,400,915
Transfers:			
Debt Service	136,488	154,593	180,725
Other Transfers (4)	(8,521)	(24,092)	(4,758)
Net Transfers	$127,968	$130,501	$175,968
Total Expenditures and Net Transfers Out	$1,589,258	$1,887,941	$1,576,882

[1]For Fiscal Years 2014, 2015, and 2016 the schedule of revenues and expenditures includes all revenues and expenditures for the fiscal year, and encumbrances for the fiscal year, including accruals at June 30.

[2]These amounts represent the Trunk Highway Fund portion of the Motor Fuel, Motor Vehicle Registration, and Motor Vehicle Sales Taxes from the Highway User Tax Distribution Fund.

[3] Because construction contracts typically span into future fiscal years, and are encumbered in their entirety in the appropriate fiscal year, materially large amounts of encumbrances exist at the end of a fiscal year. For Fiscal Years 2014, 2015, and 2016, encumbrances have been included in Capital Outlay and Real Property totals.

[4] Net of all transfers in from State General Fund, County State Aid Highway Fund, Plant Management Fund, and Special Revenue Fund.

HEALTH CARE ACCESS FUND

The Health Care Access Fund is a special revenue fund that was established to account for revenues and expenditures for initiatives that promote access to and contain the cost of health care. MinnesotaCare® is a sliding-scale health insurance program for working Minnesotans and has historically been the largest expenditure out of the fund. It was established by the 1992 Legislature to provide subsidized coverage for long term uninsured Minnesotans. The Legislature has modified program eligibility and benefits over time. In recent years, the cost of MinnesotaCare® has fallen as federal reimbursement has grown. Medical Assistance, Minnesota's Medicaid program is now the largest expenditure in the Health Care Access Fund.

A 2 percent gross revenue tax on hospitals, health care providers and wholesale drug distributors, and a 1 percent gross premium tax on nonprofit health service plans and HMOs represent the primary revenues into the fund. Based on current tax levels, projected activity in the Health Care Access Fund for the Previous Biennium and Current Biennium are detailed below:

PREVIOUS BIENNIUM
HEALTH CARE ACCESS FUND[1]
($'s in Millions)

Resources	
Unreserved Balance at June 30, 2015	$ 673
Revenues	1,467
Total Resources	$ 2,140
Expenditures	1,182
Unreserved Balance Before Transfers	$ 958
Transfers to Other Funds	273
Projected Unrestricted Balance at June 30, 2017	$ 685

CURRENT BIENNIUM
HEALTH CARE ACCESS FUND[1]
($'s in Millions)

Resources	
Unreserved Balance at June 30, 2017	$ 685
Revenues	1,593
Total Resources	$ 2,278
Expenditures	1,088
Projected Unreserved Balance Before Transfers	$1,190
Transfers to Other Funds	672
Projected Unrestricted Balance at June 30, 2019	$ 518

[1] Totals may not foot due to rounding.

In 2011, the Legislature enacted two major changes to the provider tax. The first is a provision which reduces portions of the tax revenues to the Health Care Access Fund depending upon the outlook for the fund that year. The Commissioner is required to evaluate the projected ratio of revenues to expenditures as well as its cash flows in the fund for the Current Biennium. If revenues exceed expenditures by 25 percent for the biennium, and if the cash balance in the fund is adequate, the 2 percent tax on gross revenues of hospitals, health care providers and wholesale drug distributors will be reduced to the extent that the ratio is not more than 1.25 percent. Any changes to the rate expire each calendar year and are to be re-determined by the Commissioner. To date, the criteria for reducing the tax have not been met. The second major change is a repeal of the provider tax effective January 1, 2020.

Since January 1, 2015, MinnesotaCare® has operated as a Basic Health Program ("BHP"), an option available to states under the Affordable Care Act. A BHP allows Minnesota to use federal tax subsidies to support coverage of individuals who would otherwise be eligible to purchase coverage through MNsure, Minnesota's health insurance marketplace. Following federal eligibility changes, since January 1, 2014, MinnesotaCare® has served Minnesotans with incomes between 138 percent and 200 percent of Federal Poverty Guidelines.

MINNESOTA DEFINED BENEFIT PENSION PLANS

General Information

The State has three major State-wide retirement systems that cover most of the public employees of the State and its counties, municipalities and school districts. These systems are the Minnesota State Retirement System ("MSRS"), the Public Employees Retirement Association ("PERA") and the State Teachers' Retirement Association ("TRA," and collectively, the "Retirement Systems"). The Retirement Systems were established by the Legislature in 1929 through 1931 to collect the contributions of employees and employers and to pay retirement and disability benefits to public employees and their beneficiaries. The State is the primary employer for MSRS.

Each system is governed by a board of directors consisting of both elected and appointed members. Actions of the pension systems are also subject to review by the Legislative Commission on Pensions and Retirement ("LCPR")[1], as well as the full Minnesota Legislature. The LCPR is made up of fourteen members from both the House and Senate, and are appointed at the beginning of each biennium. Generally, legislative changes approved by the pension boards are brought first to the LCPR for consideration. In certain instances, the LCPR has the power to ratify, modify, or veto changes brought forward by the pension systems. For example, certain actuarial assumptions such as mortality tables can be approved by LCPR without further legislative action. In other cases, the LCPR provides a recommendation or includes legislation in an omnibus pension bill, which then requires full approval by the Legislature.

MSRS, PERA and TRA each prepare and publish their own comprehensive annual financial report, consisting of financial statements and required supplementary information and contain detailed financial and actuarial information. Much of the information that is contained in this section "MINNESOTA DEFINED BENEFIT PENSION PLANS" (i) relies on information produced by the administrators of the Retirement Systems or their accounting and actuary agents, and (ii) depends upon future events, which may or may not be consistent with any of the assumptions, may deviate significantly from those assumptions and may alter the outcomes of the plans and the obligations of the State and other employers as a result. The State has implemented accounting standards issued by GASB, including *GASB Statement 67 - Financial Reporting for Pension Plans*, *GASB Statement 68 - Accounting and Financial Reporting for Pensions, and GASB Statement 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date*).

The GASB 67 standard requires each of the Systems to determine its net pension liability ("NPL") using assumptions that conform to actuarial standards of practice issued by Actuarial Standards Board. The NPL is the difference between the present value of pension benefits earned by employees through the end of the fiscal year and the market value of investments at the end of the fiscal year. Minnesota Statutes, Section 356.20, requires the Retirement Systems to include in their annual financial reports information using funding-focused statutory assumptions and methodologies. Following are the main reasons for the differences between the statutory funding focused information and the GASB-based information:

- The discount rate required by statute for funding purposes was different from the discount rate used for financial reporting purposes. The discount rate is the rate used to bring the projected pension benefits to the present value of these benefits. Under the statutory "select and ultimate" method investment earnings assumption, effective commencing with the July 1, 2013 actuarial valuation report, the annualized assumed investment return was 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 8.5 percent annualized for Fiscal Year 2018 and years thereafter. However, the 2015 Legislature reduced the assumed actuarial rate of return from 8.5 percent to 8.0 percent for MSRS, PERA, and the Saint Paul Teachers Fund Association ("SPTRFA") for Fiscal Year 2016 and beyond. For fiscal year 2016, the discount rate used for GASB financial reporting purposes was 7.5 percent for MSRS and PERA and 8.00 percent for TRA, as determined by Systems' management, in consultation with their actuaries in accordance with the actuarial standards of practice. See "Retirement Systems Funding" below for additional information regarding statutory and financial reporting discount rates.
- The statutory asset valuation method required for funding purposes was different from the GASB asset valuation method required for financial reporting purposes. For funding purposes, Minnesota law requires investment gains and losses to be recognized over a five-year period to "smooth" the volatility that can occur from year to year. For GASB financial reporting purposes, assets are valued at market value as of the end of the fiscal year.

The GASB 68 standard set forth standards that modified the accounting and financial reporting of the State's pension obligations. The new standard for governments that provide employee pension benefits require the State to report in its financial statements, the State's proportionate share of the NPL, defined as the difference between the total

[1]More information on the Legislative Commission on Pensions and Retirement (LCPR) can be found at http://www.lcpr.leg.mn/.

pension liability (the present value of projected benefit payments to employees based on their past service) and the asset (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The State's proportionate share includes both the share of the NPL associated with the State's employees contributing into the retirement plans as well as the State's share of contributions to PERA for the former Minneapolis Employees Retirement Fund ("MERF"), to TRA for the former Duluth Teachers Retirement Fund Association ("DTRFA"), Minneapolis Teachers Retirement Fund Association ("MTRFA") and the St. Paul Teachers' Retirement Fund as it meets the GAAP definition of a special funding situation.[1]

The standard required recognition of additional liabilities associated with pensions over previously reported. The rate used by the new standard to discount projected benefit payments to their present value was based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a "crossover date." The new standard was effective for the State in Fiscal Year 2015, although MSRS adopted GASB 67 for Fiscal Year 2014.

The GASB 71 standard objective is to address an issue regarding application of the transition provisions of GASB 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning NPL. The provisions of this Statement were required to be applied simultaneously with the provisions of Statement 68.

The financial reports include information determined using assumptions and methodologies required by statutes and using assumptions and methodologies required by GASB. However, including this information was necessary for the Retirement Systems to comply with both state law and GASB requirements. For Fiscal Year 2016, the external auditors rendered unmodified audit opinions to the financial statements, which contain the dual reporting structure.

These comprehensive annual financial reports for the Fiscal Year ended June 30, 2016, are available from the following public web sites:

MSRS: https://www.msrs.state.mn.us/financial-information
PERA: http://www.mnpera.org (select "About PERA", "Financial Information")
TRA: https://www.minnesotatra.org/formspub/2016annualrpt.html

The Systems' actuarial reports for the Fiscal Year ended June 30, 2016, are available from the following public web sites:

MSRS: https://www.msrs.state.mn.us/fy-2016
PERA: http://www.mnpera.org/ (select "About PERA", "Financial Information")
TRA: https://www.minnesotatra.org/FORMSPUB/eepubs.html

Please note these website addresses are provided for the convenience of the reader. No representation is made by the State as to the privacy practices of other websites, nor is the State liable for the content or availability of any listed sites.

For additional information on the State's pension systems, refer to the State Financial Statements in APPENDIX F. See Note 8 – Pension and Investment Trust Funds (see pages F-82 through F-102) and Required Supplementary Information (see pages F-150 through F-161). Pension disclosure in the State's Financial Statements differ from the pension systems financial statements. In addition, the State's Financial Statements disclosures only include the State's proportionate share due to the one year lag between the disclosures statements in Systems' Comprehensive Annual Reports and the State's CAFR.

See "Recent Changes to Pension Obligation Reporting" and "*MSRS – GASB Statements No. 67 and No. 68 Actuarial Valuation Results"* in this APPENDIX B for GASB 67 reporting information.

Each plan administrator accounts for one or more pension plans as part of their system. For some of these plans, the State contributes as an employer and/or a non-employer contributing entity, and performs only a fiduciary role for

[1] The State of Minnesota's Fiscal Year 2016 Comprehensive Annual Financial Report reflects the merger of the DTRFA into the TRA.

other plans. These pension plans are categorized as either defined benefit or defined contribution pension plan. The State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans.

In a defined benefit pension plan, a periodic (usually monthly) benefit is paid to retired, disabled and survivors of deceased employees in an amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits and salary. The benefit is payable to the retiree for life and, if applicable, a survivor's benefit is provided to the designated beneficiary of the retiree. To fund the benefits paid by the defined benefit pension plan, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The employee and employer contribution percentages for each retirement plan are specified in Minnesota statutes. Actuarially required contributions to the plans are calculated annually by an independent actuary pursuant to Minnesota statutes. See "Actuarial Valuation Requirements" below.

Overview – MSRS

MSRS provides retirement coverage for 55,219 active employees, 42,640 retirees, disabilitants, and beneficiaries, and 18,459 members who no longer contribute, but are eligible for future monthly benefits or a refund of their contributions. These members participate in five unique defined benefit retirement funds (effective July 1, 2013 the Elective State Officers Retirement Fund merged with the Legislators Retirement Fund, thus reducing the number of MSRS's defined benefit funds from six to five). The largest funds include the State Employees Retirement Fund, Correctional Employees Retirement Fund and State Patrol Retirement Fund, which represents 99 percent of total assets for MSRS' defined benefit funds.

The MSRS administration is governed by an 11-member board of directors. The board includes four members elected by the membership at large of the General Employees and Unclassified Employees Retirement Plans, one elected State Patrol Retirement Plan member, one elected Correctional Employees Retirement Plan member, one elected retired member, one designated representative for employees of Metropolitan Council's Transit division, and three members appointed by the State Governor, one of which must be a constitutional officer or an appointed State official. The board appoints an executive director who administers the plans in accordance with Minnesota law and board policies, and directs the daily operational activities of MSRS.

The State Employees Retirement Fund includes the General Employees Retirement Plan, a multiple- employer, cost-sharing plan, the State Fire Marshals Plan, the Military Affairs Plan, and the Transportation Pilots Plan. The General Employees Retirement Plan is the largest retirement plan that MSRS administers. It covers most state employees, civil service employees of the University of Minnesota, and employees of the Metropolitan Council. The State Fire Marshals Plan covers employees of the State Fire Marshals Division employed as deputy State fire marshal fire/arson investigators. Only certain employees of the Departments of Military Affairs and Transportation are eligible to be members of the Military Affairs and Transportation Pilots Plans, but all State employees who are not members of another plan are covered by the General Employees Retirement Plan.

The State Patrol Retirement Fund includes only the State Patrol Retirement Plan, a single-employer plan. Membership is limited to those State employees who are State troopers, conservation officers, crime-bureau officers or gambling-enforcement agents.

The Correctional Employees Retirement Fund includes only the Correctional Employees Plan, a multiple employer cost-sharing plan. Membership is limited to those State employees in covered correctional service, including employees with 75 percent working time spent in direct contact with inmates or patients at Minnesota correctional facilities, the State operated forensics services program, or the Minnesota Sex Offender Program.

The Judges Retirement Fund includes only the Judges Retirement Plan, a single-employer plan. Active membership is limited to a judge or justice of any State court.

The Legislators Retirement Fund is funded on a pay-as-you-go basis with direct appropriations from the State's General Fund. Effective July 1, 2013 this fund includes the Legislators Retirement Plan and the Elective State Officers Retirement Plan. Each plan is a single-employer plan and closed to new membership. The Legislators Retirement Plan includes members of the Minnesota House of Representatives and Senate first elected to office before July 1, 1997 who elected to retain coverage under this plan. The Elective State Officers Plan includes only the constitutional officers first elected prior to July 1, 1997 who elected to retain coverage under this plan.

Membership statistics for each of the MSRS funds, as of June 30, 2016, follow:

	State Employees Retirement Fund	Patrol Retirement Fund	Correctional Employees Retirement Fund	Judges Retirement Fund	Legislators Retirement Fund	Totals
Members:						
Retirees	32,241	844	2,426	250	302	36,063
Beneficiaries	3,868	151	208	80	70	4,377
Disabilitants	1,843	53	284	20	N/A	2,200
Terminated members:						
Vested, no benefits	17,019	55	1,316	17	52	18,459
Non-Vested	7,571	20	661	0	0	8,252
Active members:						
Vested	33,436	730	2,970	278	23	37,437
Non-Vested	16,036	162	1,551	33	0	17,782
Totals	112,014	2,015	9,416	678	447	124,570
Annualized Payroll	*$2,797,345,000*	*$69,343,000*	*$241,242,000*	*$45,418,000*	*$989,000*	*$3,154,337,000*

MSRS also administers four defined contribution funds. These funds include the Unclassified Employees Retirement Fund, the Health Care Savings Fund, the Deferred Compensation Fund (an Internal Revenue Code Section 457 plan), and the Hennepin County Supplemental Retirement Fund.

Overview – PERA

PERA administers pension funds that serve approximately 270,000 active county, school and local public employees, benefit recipients, their survivors and dependents. PERA serves more than 2,000 separate governmental entities. These participating employers include cities, counties, townships, and school districts located throughout the State. As of June 30, 2016, PERA's membership included 165,609 current, active employees and 105,686 retirees and beneficiaries.

The PERA board of trustees is responsible for administering these funds in accordance with statutes passed by the Legislature and has a fiduciary obligation to PERA's members, the governmental employers, the State, and its taxpayers. The PERA board of trustees is composed of 11 members. The State Auditor is a member by statute. Five trustees are appointed by the Governor. Serving four-year terms, these five trustees represent cities, counties, school boards, retired annuitants, and the general public, respectively.

The remaining five board members are elected by the PERA membership at large to serve four-year terms. Three represent the general active membership, one trustee represents Police and Fire Fund members, and one trustee represents annuitants and benefit recipients.

The board appoints an executive director to serve as chief administrative officer of PERA. With approval of the board, the director develops the annual administrative budget, determines staffing requirements, contracts for actuarial and other services, and directs the day-to-day operation of the association.

PERA administers five separate defined benefit pension funds (including one multi-employer agent plan) and one defined contribution plan. Each has specific membership, contribution, benefit, and pension provisions.

The General Employees Retirement Fund ("GERF") encompasses two plans: the PERA Coordinated Plan and the PERA Basic Plan. The Coordinated Plan, created in 1968, provides retirement and other benefits in addition to those supplied by Social Security. The Basic Plan established in 1931, is not coordinated with the federal program and was closed to new members on December 31, 1967. Prior to January 2015, a separate defined benefit plan with 3,600 retirees, 29 active members and 37 deferred members known as the Minneapolis Employees Retirement Fund ("MERF") was separately accounted for within the General Employees Retirement Fund. All of the active members are eligible to

retire. Employers participating in MERF include the City of Minneapolis, Minneapolis Schools, Metropolitan Airports Commission, Hennepin County, Minnesota State, Metropolitan Council, and the Municipal Building Commission. MERF was fully merged into the GERF in January 2015, but the state has an ongoing financial obligation to PERA to fund the former MERF liability.

The Public Employees Police and Fire Fund ("PEPFF") originally established in 1959 for police officers and firefighters not covered by a local relief association, now encompasses all Minnesota police officers and firefighters hired since 1980. As of July 1, 1999, this fund also includes the members of 44 previously local police and fire relief associations that elected to have PERA administer their plan. See "Pension Legislation and Litigation" below.

The Local Government Correctional Service Retirement Fund (called the "Public Employees Correctional Fund" or "PECF") was created in 1999 to cover local government correctional service employees who spend most of their time in direct contact with inmates. The majority of these employees were formerly part of the Coordinated Plan.

Membership statistics for each of the funds, as of June 30, 2016, follow:

	General Employees Retirement Fund (GERF)	**Public Employees Police & Fire Fund (PEPFF)**	**Public Employees Correction al Fund (PECF)**	**TOTAL**
Retirees	81,911	7,222	749	89,882
Beneficiaries	8,547	1,873	49	10,469
Disabilitants	3,830	1,257	169	5,256
Terminated Members:				
Vested, no benefits	52,516	1,490	2,755	56,761
Non Vested	132,416	1,059	2,359	135,834
Active Members:				
Vested	90,491	9,088	2,251	101,830
Non Vested	58,254	2,310	1,576	62,140
Totals	427,965	24,299	9,908	462,172

Annualized Payroll	*$5,773,708,000*	*$881,222,000*	*$188,816,000*	*$6,843,746,000*

PERA also administers the Volunteer Firefighter Retirement Fund, a multi-employer, agent plan and the Public Employees Defined Contribution Plan, which was established by the Minnesota Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services. The defined contribution plan has been expanded to include physicians and locally-elected public officials, except for county sheriffs.

***Overview* – TRA**

TRA had 595 reporting employer units, 80,530 active members and a total of 63,503 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 2016.

Teachers, and others designated by statute, employed in Minnesota's public elementary and secondary schools, charter schools and certain educational institutions maintained by the State (except those teachers employed by the City of Saint Paul, and by the University of Minnesota system) are required to be TRA members. Teachers employed by the Minnesota State College and Universities may elect TRA coverage. Former members of MTRFA and DTRFA have been merged into TRA through legislative action. MTRFA was merged with TRA in 2006 and DTRFA was merged in 2015.

TRA is managed by an eight member board of trustees: three are statutorily appointed and five are elected. The appointed trustees are the Commissioner of Education, the Commissioner of Management and Budget and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the board of trustees.

Membership statistics for the fund, as of June 30, 2016, follow:

Retirees	57,891
Disabilitants	521
Beneficiaries	5,091
Terminated Members:	
Vested, deferred	13,680
Non Vested	31,850
Active Members:	
Vested	63,674
Non Vested	16,856
Total Membership	189,563

Annualized Payroll	*$4,515,699,000*

Investments

Assets of the pension funds are invested by the Minnesota State Board of Investment ("SBI"). SBI prepares and publishes an annual financial report including financial statements and required supplementary information. The information that is contained in the sections "Investments" and "Investment Results" is provided by SBI.

SBI is established by Article XI of the Minnesota Constitution to invest all State funds. The Governor (who is designated as chair of the SBI), State Auditor, Secretary of State and Attorney General are members. All investments undertaken by SBI are governed by the "prudent person rule" and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

The prudent person rule, as codified in Minnesota Statutes, Section 11A.09, requires all members of the SBI, its Investment Advisory Council (as discussed below), and SBI staff to *"...act in good faith and ...exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom."* Minnesota Statutes, Section 356A.04 contains similar codification of the prudent person rule applicable to the investment of pension fund assets.

In addition to the prudent person rule, Minnesota Statutes, Section 11A.24, contains a specific list of asset classes available for investment including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The statutes prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

A 17-member Investment Advisory Council, ten members of which must be experienced in general investment matters, advise the SBI on investment policy. The Commissioner of Management and Budget, and the three executive directors of the Retirement Systems also serve as members as do one retiree and two active employee members. Also, investment consultants are hired to monitor and evaluate investment performance of the investment firms hired by the SBI. Within the requirements defined by State law, the SBI, in conjunction with SBI staff and the Investment Advisory Council, establishes investment policies for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. The SBI, its staff, and the Investment Advisory Council have conducted detailed analyses that address investment objectives, asset allocation policy and management structure of each of the funds under SBI's control. The studies guide the on-going management of these funds and are updated periodically.

The individual pension plans invest in investment pools administered by SBI. The pools function much like mutual funds, with the pension plans purchasing "units" of the pools rather than purchasing individual securities. The Combined Funds represent the assets for both the active and retired public employees in the statewide retirement plans which are administered by the three statewide retirement systems, TRA, PERA, and MSRS. The Combined Funds covers active and retired employees and had a market value of $57.8 billion, as of June 30, 2016. The Combined Funds market value was $64.1 billion, as of June 30, 2017.

Assumed Return and Asset Allocation

Employee and employer contribution rates are specified in State law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, Minnesota statutes specify the annual investment return the retirement fund assets are assumed to earn. The 2012 Legislature modified the investment earnings assumption to a "select and ultimate" method, effective for the July 1, 2013 actuarial valuation report. At that time, the annualized investment return assumed was 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 8.5 percent for Fiscal Year 2018 and years thereafter, with the exception of the Legislators and Elective State Officers Retirement Funds, which changed from 8.5 percent to 0 percent for all years. The 2015 Legislature reduced the assumed actuarial rate of return from 8.5 percent to 8.0 percent for MSRS, PERA, and the Saint Paul Teachers Fund Association ("SPTRFA") for Fiscal Year 2016 and beyond. TRA is statutorily required to use the "select and ultimate" method for Fiscal Year 2017 for the funding actuarial valuation report, but proposed legislation in the 2017 Legislative Sessions to lower the assumption to 7.5 percent for 5 years and 8.0 percent for all years thereafter. (For additional information on the select and ultimate method and recent legislative changes, see "Pension Legislation and Litigation," herein.) Normally, pension assets will accumulate in the Combined Funds for 30 to 40 years during an employee's years of active service. A typical retiree can be expected to draw benefits for an additional 15 to 20 years or longer. This provides the Combined Funds with a long investment time horizon and permits the SBI to take advantage of the return opportunities offered by common stocks and other equity investments in order to meet the actuarial return target.

The allocation of assets among stocks, bonds, alternative investments and cash has a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. The asset allocation of the Combined Funds is reviewed periodically. SBI has chosen to incorporate a large commitment to common stocks in the asset allocation policy for the retirement funds. In order to limit the short run volatility of returns exhibited by common stocks, the SBI includes other asset classes such as bonds, real estate, and resource investments in the total portfolio. This diversification is intended to reduce wide fluctuations in investment returns on a year to year basis and without impairing the funds' ability to meet or exceed the actuarial return target over the long-term. The Combined Funds has an asset allocation policy based on the investment objectives of the Combined Funds and the expected long term performance of the capital markets. The asset allocation policy of the Combined Funds Prior to Fiscal Year 2017 was approved by the SBI in December 2008, and was as follows:

Domestic Stocks	45%
International Stocks	15%
Bonds	18%
Alternative Assets	20%
Unallocated Cash	2%

The asset allocation policy of the Combined Funds beginning Fiscal Year 2017 was approved by the SBI in June 2016, was as follows:

Domestic Stocks	39%
International Stocks	19%
Bonds	20%
Private Markets*	20%
Unallocated Cash	2%

*Private Markets was previously referred to as Alternative Assets.

At the September 2017 SBI meeting an increase in the Private Markets allocation from 20 to 25% was approved. Changes to the asset allocation policy to offset this increase in the Private Markets allocation will be determined at the December 2017 SBI meeting.

SBI's asset rebalancing policy is as follows: When actual asset allocation deviates 5 percent to 10 percent from the target, rebalancing is at the discretion of SBI. If the actual allocation deviates 10 percent or more from the target, assets must be redistributed to achieve long-term allocation targets. (The target allocation for domestic equity is 45 percent of the fund. A 5 percent deviation would equal 2.25 percent). The uncommitted allocation in Private Markets is invested in equities. The SBI recognizes that in some market situations the allocation to Private Markets may exceed 25 percent but may not exceed 30 percent. An increase to the maximum allowable allocation to Private Markets from 24 to 30% was approved at the September 2017 SBI meeting.

The following table represents the actual asset allocation and the market value for the Combined Funds as of June 30, 2016 and June 30, 2017.

COMBINED FUNDS INVESTMENTS
PERIODS ENDING JUNE 30, 2016 AND JUNE 30, 2017
($'s in Millions)

	Policy Targets	Actual Mix 6/30/2016	Market Value 6/30/2016[2]	Actual Mix 6/30/2017	Market Value 6/30/2017[2]
Domestic Stocks	**45.0/39%**	46.4%	$26,817	43.2%	$27,713
International Stocks	**15.0/19**	14.0	8,095	21.6	13,894
Bonds	**18.0/20**	24.7	14,279	19.4	12,425
Private Markets [1]	**20.0**	12.8	7,404	13.1	8,409
Unallocated Cash	**2.0**	2.1	1,209	2.6	1,675
	100.0%	**100.0%**	**$57,804**	**100.0%**	**$64,116**

[1] Any uninvested allocation was held in domestic bonds prior to June 30, 2016 and in Stocks after June 30, 2016. For quarters ending September 30, 2016 and December 31, 2016 the uninvested allocation was held in bonds and equities. For the quarter ending March 31, 2017 all uninvested Private Markets allocation was in equities.
[2] Market value based on fair value as defined in GASB 31.
Source: SBI Quarterly Board Book Performance, periods ended June 30, 2016 and June 30, 2017.

Investment Results

All assets in the Combined Funds are managed externally by investment management firms retained by contract. Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date. The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the State's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts.

The rate of return in the Combined Funds was -0.1 percent in the Fiscal Year ending June 30, 2016. The unaudited rate of return in the Combined Funds was about 15.1 percent for the Fiscal Year ending June 30, 2017. Over a 10 year period, the Combined Funds are expected to outperform a composite market index weighted in a manner that reflects the long-term asset allocation over the latest 10-year period.

					Period Ending June 30, 2016						
	2012	**2013**	**2014**	**2015**	**2016**	**3 Yr.**	**5 Yr.**	**10 Yr.**	**20 Yr.**	**25 Yr.**	**30 Yr.**
Combined Funds	**2.4%**	**14.2%**	**18.6%**	**4.4%**	**-0.1%**	**7.3%**	**7.7%**	**6.5%**	**7.5%**	**8.6%**	**8.7%**
Composite Index	3.0%	12.9%	18.0%	4.0%	1.1%	7.4%	7.6%	6.3%	7.3%	8.3%	8.5%
					Period Ending June 30, 2017						
	2013	**2014**	**2015**	**2016**	**2017**	**3 Yr.**	**5 Yr.**	**10 Yr.**	**20 Yr.**	**25 Yr.**	**30 Yr.**
Combined Funds	**14.2%**	**18.6%**	**4.4%**	**-0.1%**	**15.1%**	**6.3%**	**10.2%**	**6.2%**	**7.2%**	**8.6%**	**8.7%**
Composite Index	12.9%	18.0%	4.0%	-1.1%	14.4%	6.3%	9.9%	6.0%	7.0%	8.4%	8.5%

Source: SBI Quarterly Board Book and SBI Performance Management Data Base

Actual Combined Funds returns relative to the total fund composite index are shown above. For the 10 year period ending June 30, 2017, the Combined Funds outperformed the composite index by 0.2 percent points. For the 20 year period ending June 30, 2017, the Combined Funds outperformed the composite index by 0.2 percent points. The annualized rate of return for the Combined Funds over the past 25 years was 8.6 percent; over the past 30 year period since June 30, 1987, the annualized rate of return is 8.7 percent.

Fiscal Year 2016 Contribution Summary

As mentioned above, the State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to PERA, TRA and certain local governments to assist with public pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to PERA, TRA, certain local governments and school districts that are contributing employers in these plans. Provided below is a Table summarizing the Retirement Systems, including: the types of pension plans (e.g., defined benefit, defined contribution, etc.), whether the State contributes to the pension plan as an employer or otherwise, and the State's FY 2016 contributions to the various plans.

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MINNESOTA RETIREMENT SYSTEMS – STATE PARTICIPATION AND CONTRIBUTION SUMMARY

(Defined Benefit Plans in Bold)

($'s in Thousands)

Minnesota State Retirement Systems (MSRS)				
Plans Covered	**Type**	**State Employer Participation**	**State Provides Other Non-Employer Contributions**	**FY 2016 State Pension Employer Contributions[1]**
State Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes[2]	No	$112,784
Correctional Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes	No	$30,646
Judges Retirement Fund	**Single employer, State plan**	Yes	No	$10,219
Legislators Retirement Fund[3]	**Single employer, State plan**	Yes	No	$0
State Patrol Retirement Fund	**Single employer, State plan**	Yes	No	$13,938
Unclassified Employees Retirement Fund	Defined Contribution	Yes	No	$6,187
Postretirement Healthcare Benefits Fund	Defined Contribution	N/A	N/A	N/A
State Deferred Compensation Fund	Defined Contribution	N/A	N/A	N/A
Hennepin County Suppl. Retirement Fund	Defined Contribution	N/A	N/A	N/A
Public Employees Retirement Association (PERA)				
Plans Covered	**Type**	**State Employer Participation**	**State Provides Other Non-Employer Contributions**	**FY 2016 State Pension Employer Contributions[1]**
General Employees Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[4]	Yes	$3,338
Public Employees Police and Fire Fund	**Multiple employer, cost-sharing plan**	No	Yes[4]	$0
Public Employees Correctional Fund	**Multiple employer, cost-sharing plan**	No	No	$0
Volunteer Firefighter Retirement Fund	Multiple employer, agent plan	N/A	Yes [4]	N/A
Defined Contribution Fund	Defined Contribution	N/A	N/A	N/A
Teachers Retirement Association (TRA)				
Plans Covered	**Type**	**State Employer Participation**	**State Provides Other Non-Employer Contributions**	**FY 2016 State Pension Employer Contributions[1]**
Teachers Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[5]	Yes[5]	$1,414[5]

[1] Includes: State contributions made as an employer. Employer contributions are made from a variety of State funds, including the General Fund. State contributions made as direct aid can be found in the table "STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES DIRECT AID TO PENSION FUNDS" and contributions for local aid in the table "STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES PENSION RELATED LOCAL GOVERNMENT AID."

[2] The State is a primary employer for the State Employees Retirement Fund.

[3] Effective July 1, 2013, the Elective State Officers Retirement Fund was merged into the Legislators Retirement Fund.

[4] The State does not make employer contributions to PERA other than covered individuals employed by PERA, and a small number of employees from Minnesota State, the Public Defense Board, Department of Military Affairs and the court system that were grandfathered into the plan.

[5] The State makes employer contributions to TRA for Minnesota State faculty members who have elected TRA, Perpich School for the Arts employees, certain Department of Education employees formerly covered by TRA and the Faribault Academies employees. This figure also includes employer contributions for covered individuals employed by TRA.

Source: MSRS, Comprehensive Annual Financial Report, fiscal year ended June 30, 2016; PERA, Schedule Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only, for fiscal year ended June 30, 2016; TRA, Schedule of Employer and Non-Employer Allocations, fiscal year ended June 30, 2016.

Statutory Funding Requirements

Minnesota's defined benefit retirement plans are financed in several ways, including employee contributions, contributions from State agencies for their covered employees, contributions from local political subdivisions, and direct State appropriations. For substantially all of the defined benefit plans, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. Each fund's financing requirement is determined by a specific formula established in State law. The statutory funding formulas are not always consistent with the calculated actuarial requirements as described herein. No assurance can be provided that the formulas will not change in the future. Provided below are the existing formulas for the Retirement System's Plans and the local defined benefit plans that are governed by State statutes:

MSRS: MSRS consists of the assets of nine pension funds, five of which encompass defined-benefit plans, in which the State participates as an employer or otherwise provides general government contributions. For each of the defined benefit plans[1] in MSRS (except for Legislators Retirement Plan), both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute. The Legislators Retirement Plan is funded on a pay-as-you-go basis from the State's General Fund as all assets have been depleted. This Plan also receives annual General Fund appropriations to finance retirement benefits for all members of the Elective State Officer Plan, which merged into the Legislators Fund effective July 1, 2013. See the table "MINNESOTA STATE RETIREMENT SYSTEM EMPLOYER CONTRIBUTION HISTORY" below, in this APPENDIX B.

PERA: PERA consists of the assets of five pension funds, four of which are defined benefit plans. The State does not make employer contributions to PERA other than for covered individuals employed by PERA, and a small number of employees from Minnesota State, the Public Defense Board, Department of Military Affairs and the court system who were grandfathered in. For each of the defined benefit funds in PERA (except as noted below), both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute. The State also provides aid to local jurisdictions equal to 0.35 percent of their 1997 PERA payroll.

TRA: The State makes employer contributions to TRA for Minnesota State faculty members who have elected TRA, Perpich School for the Arts employees, certain Department of Education employees formerly covered by TRA and the Faribault Academies employees. The State provides certain general government contributions to TRA for actuarial liabilities assumed by the consolidation in 2006 of the former MTRFA and by the consolidation in 2015 of the former DTRFA. For the Teachers' Retirement Fund, both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute. See the table "State General Fund Appropriation History, Direct Aid to Pension Funds" below, in this APPENDIX B.

State Direct Aid to Pension Funds and Pension Related Local Government Aid

MERF: MERF was a separate entity until June 30, 2010, when it was consolidated under PERA's administration and it was fully merged into the GERF in January 2015. As a result of 2015 legislative action, the annual member and employer contributions are each set at 9.75 percent of the salary of the employee. Additionally, the supplemental contribution made by MERF employers (mainly the City of Minneapolis) is $31,000,000 for each of calendar years 2015 and 2016 and $21,000,000 each year thereafter. The State's annual aid payment is $6,000,000 in calendar years 2015 and 2016 (State Fiscal Years 2016 and 2017, respectively), $16,000,000 in calendar years 2017 and 2018 (State Fiscal Years 2018 and 2019), and $6,000,000 beginning in calendar year 2019 (State Fiscal Year 2020) and each year thereafter. See the table "STATE GENERAL FUND APPROPRIATION HISTORY, DIRECT AID TO PENSION FUNDS" below.

Local Police and Fire Amortization Aid: This aid program is specified in statute. As originally designed, it funded the State's share of amortizing unfunded liabilities of local police or fire relief associations that were being merged into PERA. In more recent years, part of the money has been redirected to the former MTRFA and the former DTRFA (now both part of TRA) and SPTRFA. The State's contribution remains at the Fiscal Year 1992 appropriation level, or less, until SPTRFA becomes fully funded. An additional supplementary appropriation was established in 2013

[1]One of the funds, the State Employees Retirement Fund, includes four separate plans, the General State Employees Plan (which is the largest plan of the State Employees Retirement Fund), and plans for three separate groups: Minnesota Department of Transportation pilots, deputy State fire marshals, and Military Affairs personnel.

that provides $9,000,000 directly to PERA's Police and Fire Fund, and slightly increases the aid that is provided to local police or fire relief associations. The State also provides supplemental benefit reimbursement aid to help support retirement pensions for local volunteer fire fighters. See the table "STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, PENSION RELATED LOCAL GOVERNMENT AID" below.

TRA: The State provides certain general government contributions to TRA for actuarial liabilities assumed by the consolidation in 2006 of the former MTRFA and of the consolidation in 2015 of the former DTRFA. See the table "STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, DIRECT AID TO PENSION FUNDS" below, in this APPENDIX B.

Local Defined Benefit Retirement Systems Governed by State Statutes: For SPTRFA and the former DTRFA (prior to July 1, 2015), both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute. The State also contributes to certain local police and fire associations. See the tables "STATE GENERAL FUND APPROPRIATION HISTORY, PENSION RELATED LOCAL GOVERNMENT AID" and "STATE GENERAL FUND APPROPRIATION HISTORY, DIRECT AID TO PENSION FUNDS" below.

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STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES
DIRECT AID TO PENSION FUNDS
($'s in Thousands)

Fiscal Year Ended June 30th	(Former) Minneapolis Employees Retirement Fund (MERF)[1]	TRA/ MTRFA & DTRFA[2]	St. Paul Teachers Retirement Fund (SPTRFA)[3]	Duluth Teachers Retirement Fund (DTRFA)[3][4]	TRA/ DTRFA[4]	Total
2006	$8,065	$15,770	$2,969	-	-	$26,804
2007	9,000	15,800	2,967	-	-	27,767
2008	9,000	15,801	2,967	-	-	27,768
2009	8,873	15,454	2,827	346	-	27,500
2010	9,000	15,454	2,827	346	-	27,627
2011	9,000	15,454	2,827	346	-	27,627
2012	22,750	15,454	2,827	346	-	41,377
2013	22,750	15,454	2,827	346	-	41,377
2014	24,000	15,454	9,827	6,346	-	55,627
2015	24,000	15,454	9,827	6,000	14,377	69,658
2016	6,000	29,831	9,827	-	-	45,658
**2017*	6,000	29,831	9,827	-	-	45,658
**2018*	16,000	29,831	9,827	-	-	55,658
**2019*	16,000	29,831	9,827	-	-	55,658
**2020*	6,000	29,831	9,827	-	-	45,658
**2021*	6,000	29,831	9,827	-	-	45,658

[1]Effective July 1, 1998, the State contribution is provided on a formula basis and is capped at no more than $9 million per fiscal year. In FY 2012 and 2013 the annual State contribution increased to $22.75 million and then to $24 million each year thereafter through FY 2031. Any requirements beyond the capped aid are the exclusive obligation of the employer units. On July 1, 2010, MERF became an administrative division within PERA. MERF was fully merged into the GERF in January 2015. The State's annual aid payment is $6.0 million in fiscal years 2016 and 2017, $16.0 million in fiscal years 2018 and 2019, and $6.0 million beginning in fiscal year 2020 and each fiscal year thereafter. Under statute, these direct aid payments continue through fiscal year 2032.

[2]For FY 2005 aid was appropriated directly to MTRFA. Beginning in FY 2006, aid is appropriated to TRA (following MTRFA's merger with TRA). Beginning in FY 2016 direct aid is to be appropriated to TRA for the former DTRFA, following its merger with TRA, effective July 1, 2015. Under statute, these direct aid payments continue until the TRA plan is fully funded.

[3]These plans are separate from TRA, and the State has no direct custodial relationship. Benefits, investment practices and contributions are, however, controlled by statute.

[4]The 2014 Legislature acted to merge DTRFA with the TRA, effective July 1, 2015. The Legislature also appropriated $14.031 million in direct aid to TRA beginning in FY 2016 and transferred the $346 thousand in direct aid for DTRFA to TRA in FY 2016. Prior to this date the plan was separate from TRA and the State had no direct custodial relationship. Under statute, these direct aid payments continue until the TRA Plan is fully funded.

*Projections for FY 2017-FY 2021 as of the end of the 2017 Legislative Sessions.
Source: MMB General Fund balance analysis

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The following table summarizes State General Fund Appropriation pension aid provided to local governments during the last ten fiscal years and estimates for Fiscal Year 2017 through Fiscal Year 2021.

STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES
PENSION RELATED LOCAL GOVERNMENT AID
($'s in Thousands)

Fiscal Year Ended June 30th	Basic Local Police and Fire Association[1]	Local Police and Fire Associations Amortization Aid	PERA Aid	Volunteer Firefighter Relief	Redirected Aid-SPTRFA /TRA	Police-Fire Retirement Supplemental Aid[2]	Total
2006	$87,967	$3,366	$14,568	$486	$1,436	-	$107,823
2007	89,424	2,886	14,560	572	790	-	108,232
2008	88,180	1,514	15,534	571	2,281	-	108,080
2009	83,183	572	14,520	609	1,888	-	100,772
2010	80,500	829	14,390	722	5,890	-	102,331
2011	82,005	1,000	14,384	627	4,886	-	102,902
2012	82,338	1,255	14,328	671	2,077	-	100,669
2013	80,696	2,753	14,316	608	-	-	98,373
2014	89,572	2,729	14,187	558	2,094	15,498	124,638
2015	93,936	2,729	14,146	625	2,094	15,498	129,028
2016	98,468	2,729	14,090	531	2,094	15,498	133,410
**2017*	102,315	2,729	14,068	534	2,094	15,500	137,240
**2018*	106,538	2,729	14,020	599	2,094	15,500	141,480
**2019*	110,868	2,729	13,972	599	2,094	15,500	145,762
**2020*	115,365	2,729	13,924	599	2,094	15,500	150,211
**2021*	120,041	2,729	0	599	2,094	15,500	140,963

[1]Basic local police and fire pension aid is an open General Fund appropriation based on the dedicated proceeds equivalent to at least 2 percent insurance premium tax on fire insurance and auto insurance, and a 2 percent surcharge on fire, lightning, and sprinkler leakage insurance.

[2]Police and Fire Retirement Supplemental Aid payments are as follows: $9 million to the PERA Police & Fire fund, $5.5 million to Volunteer Firefighter plan employers and $1 million to the MSRS State Patrol fund.

*Projections for FY 2017-FY 2021 as of the end of the 2017 Legislative Sessions.
Source: MMB General Fund balance analysis

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Retirement Systems Funding

State law requires the Retirement Systems to "pre-fund" future benefit obligations. Rather than collecting only sufficient sums from current active workers to pay current retired members and beneficiaries, the Retirement Systems are required by statute to accumulate enough assets to cover all benefit liabilities of participating members. The three Retirement Systems use different full funding dates, determined as of the July 1, 2016, actuarial valuation date:

Retirement System	Fund	Funding Date
MSRS	State Employees Retirement Fund	2042
	State Patrol Retirement Fund	2038
	Correctional Employees Retirement Fund	2038
	Judges Retirement Fund	2039
	Legislators Retirement Fund	2026
PERA	General Employees Retirement Fund	2033
	Public Employees Police and Fire Fund	2041
	Public Employees Correctional Fund	2031
TRA	Teachers Retirement Association Fund	2039

To achieve full funding, contribution rates for the Retirement Systems are determined based upon current assets, future expected investment returns, current and projected liabilities based on the benefit provisions, demographics of the Retirement Systems' membership, statutory actuarial assumptions and what annual contributions will be needed to have enough assets to match current and projected liabilities by the required full-funding date. Employee and employer contribution rates are specified in State law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings cover the projected cost of promised pension benefits and plan administrative expenses. In order to meet these projected costs, Minnesota Statutes specify the annual investment return the retirement fund assets are assumed to earn. Under the statutory "select and ultimate" method investment earnings assumption, effective commencing with the July 1, 2013, actuarial valuation report, the annualized assumed investment return is 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 8.5 percent annualized for Fiscal Year 2018 and years thereafter, with the exception of the Legislators Retirement Fund, which changed from 8.5 percent to 0 percent for all years. The 2015 Legislature adjusted these assumptions, changing the interest rate actuarial assumption from 8.5 percent to 8.0 percent for all plans except TRA and the Legislators Retirement Fund. TRA will continue to use the "select and ultimate" earnings assumption until Minnesota Statute is modified. See "Pension Legislation and Litigation," herein.

In addition, for certain pension funds, the State has adopted automatic modifications to post retirement pension benefit adjustment when pension funded ratios or contribution deficiency ratios reach certain levels. For example, TRA and MSRS (other than the Legislators Retirement Fund and the State Patrol Retirement Fund), once the fund achieves a 90 percent funded ratio (determined on a market value of assets basis) for two consecutive years, the current post-retirement benefit adjustment will increase from the current 2 percent to 2.5 percent. Conversely, the law would require the post-retirement benefit increase to drop back to 2 percent if the funding level falls below 85 percent for two consecutive years or 80 percent for one year. In terms of contribution rates, if a pension plan's valuation report indicates a sufficiency of more than one percent of covered payroll, or a deficiency greater than 0.5 percent of payroll, the Retirement Systems have the option to recommend adjustments to employee and employer contribution levels. For MSRS and PERA, the employee and employer contribution increases must be in equal amounts. Retirement Systems must submit the changes to the LCPR by either January 15th (MSRS and PERA) or February 1st (TRA) following the valuation showing the sufficiency/deficiency. If the LCPR does not recommend against the changes, the contribution increases go into effect the following fiscal year, i.e. beginning July 1st following the notification to the LCPR for TRA and MSRS, and the following January 1st for PERA.

The Legislature sets the contribution rates needed to fund the Retirement Systems by using the reports and advice of actuarial consultants. Each year an actuarial valuation report is completed to determine if a Retirement System's contribution rates are meeting the funding requirements. If the contributions are not changed to match the funding requirements determined by the actuarial consultants, deficiencies are created and those deficiencies may become worse over time. The actuarial value of plan assets is smoothed over the most recent five-year period to reduce volatility of both the funding ratio and required contribution rates. If a plan's valuation report indicates a sufficiency of more than one percent of covered payroll, or a deficiency greater than 0.5 percent of payroll, the board has the option to adjust employee and employer contribution levels. These adjustments are subject to review by the LCPR.

Every four to six years, the assumptions used to forecast funding requirements are tested against actual experience. The factors considered include but are not limited to:

- Expected average investment earnings assumption
- Number and timing of members retiring
- Number and timing of employees leaving prior to retirement
- Number of employees opting for lump-sum of their employee contributions, thereby forfeiting future benefit
- Number of new members added
- Life expectancies of both active and retired members

The most recent six-year experience study for MSRS' State Employees Retirement Fund covered the period July 1, 2008, through June 30, 2014, and was completed on June 30, 2015. Based on the results of this study, several changes in economic and demographic actuarial assumptions were recommended, including:

- decreasing the investment return rate, currently at 8.00 percent, to an amount within the range of 7.00 percent to 8.00 percent,
- decreasing the price inflation rate from 3.00 percent to 2.75 percent,
- decreasing the payroll growth rate from 3.75 percent to 3.5 percent,
- adjusting merit and seniority pay increase rates,
- changing mortality rates from RP-2000 to MP-2014 tables, which result in a decrease in assumed mortality rates at almost all ages,
- adjusting retirement and withdrawal rates,
- changing the assumed post-retirement benefit increase rate from 2.00 percent per year through 2015 and 2.50 percent per year thereafter to 2.00 percent per year through 2020 and 2.50 percent per year thereafter, and
- decreasing the assumed percentages of married members, and adjusting the percentages of married members electing various forms of annuity payments.

Experience studies for MSRS' State Patrol, Correctional Employees, and Judges Retirement Funds for the period July 1, 2011 through June 30, 2015, were completed on June 30, 2016. Based on the results of these studies, several changes in economic and demographic actuarial assumptions were recommended, including:

- adjusting assumed retirement ages;
- adjusting disability rates
- adjusting merit and seniority pay increase rates,
- adjusting retirement and withdrawal rates,
- adjusting assumed termination rates, and
- changing mortality rates from RP-2000 to RP-2014 tables, white collar adjustment, with future improvements projected using scale MP-2015 from a base year of 2006, which result in a decrease in assumed mortality rates at almost all ages.

Assumption changes require approval of the MSRS Board of Directors and the LCPR. The MSRS Board approved the changes in the actuarial assumptions, other than the investment return (or interest rate) assumption, for the State Employees Retirement Fund, on July 16, 2015. Subsequently, in February 2016, the LCPR adopted the same proposed changes in actuarial assumptions. The MSRS Board approved changes in the actuarial assumptions on September 15, 2016, for the State Patrol, Correctional Employees, and Judges Retirement Funds. The LCPR adopted the same proposed changes in actuarial assumptions on February 14, 2017.

An experience study for PERA's General Employees Retirement Fund (GERF) was completed in 2015 and covered the period from July 1, 2008 through June 30, 2014. Recommended assumption changes included:

- Decrease the payroll growth assumption,
- Decrease the retirement rate assumption,
- Increase the termination (withdrawal) rate assumption,
- Decrease the disability rate assumption, and
- Change the base mortality table from RP-2000 to RP-2014.

These changes were adopted by the PERA board and the LCPR and were implemented in the 2016 actuarial valuation.

An experience study for the Police and Fire Fund covering the period from July 1, 2011 to June 30, 2015 was completed in August, 2016. Recommended assumption changes included:

- Decrease assumed rates of merit and seniority increases,
- Increase the assumed rate of unreduced retirements,
- Decrease the assumed rate of reduced (early) retirements,
- Decrease assumed termination (withdrawal) rates, and
- Change the base mortality table to the to RP-2014.

The recommendations were reviewed and approved by the PERA board at its October, 2016 meeting.

The July 1, 2008, through June 30, 2014, actuarial experience study for TRA was completed in June 2015. The report contained a number of economic and demographic recommendations, including adopting retiree mortality based on RP-2014 tables, including MP-2015 improvement scale (reflecting longer life expectancy), lowering the assumed growth in total member covered salary from 3.75 percent annually to 3.50 percent annually and changing the discount rate assumption to 8.0 percent for all years. On February 3, 2016, the LCPR enacted a set of assumption changes for TRA; however, the assumption changes requiring changes in law, including lowering the discount rate assumption to 8 percent, were not enacted due to the veto of the omnibus pension bill by Governor Dayton. (See "Pension Legislation and Litigation," herein.) During the 2017 Legislative Sessions, TRA sought a change to the earnings assumption of 7.5% for 5 years and 8.0% for future years, but no pension legislation was enacted. The next experience study for TRA will cover the period from July 1, 2014 through June 30, 2018.

The following table provides a summary analysis of funding status for the Retirement Systems and certain local defined benefit retirement plans where the State provides non-employer general government contributions governed by State statutes as of June 30, 2015, based on the respective annual actuarial valuation reports.

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STATUTORY METHOD
FUNDING STATUS OF DEFINED BENEFIT PENSION FUNDS TO WHICH MINNESOTA PROVIDES GENERAL FUND RESOURCES AS OF JUNE 30, 2016[1]

($'s in millions)

		Actuarial Value			Market Value			Membership	
	Actuarial Accrued Liability [2]	Actuarial Value of Assets (AVA) [3]	Unfunded Actuarial Accrued Liability (UAAL) [4]	Funding Ratio [5]	Market Value of Assets (MVA) [6]	Unfunded Liability	Funding Ratio	Active Members	Other Members
1. Funds Where the State Has Custodial Responsibility									
Minnesota State Retirement System (MSRS):									
— State Employees Retirement Fund	$14,317	$11,676	$2,641	81.56%	$11,223	$3,094	78.39%	49,472	62,542
— Correctional Employees Retirement Fund	1,314	937	$377	71.34%	900	$414	68.49%	4,521	4,895
— State Patrol Retirement Fund	834	655	$179	78.53%	630	$204	75.55%	892	1,123
— Judges Retirement Fund	331	173	$158	52.07%	166	$165	50.07%	311	367
— Legislators Retirement Fund[7]	219	0	$219	N/A	0	$219	N/A	23	424
Subtotal	$17,015	$13,441	$3,574		$12,919	$4,096		55,219	69,351
Public Employees Retirement Association (PERA):									
— General Employees Fund	24,848	18,766	6,082	75.52%	17,995	6,853	72.42%	148,745	279,220
— PERA Police & Fire Fund	8,418	7,386	1,032	87.74%	7,098	1,320	84.32%	11,398	12,901
— Local Correctional Service Fund	554	530	24	95.67%	508	46	91.70%	3,827	6,081
Subtotal	$33,820	$26,682	$7,138		$25,601	$8,219		163,970	298,202
Teachers' Retirement Association (TRA):	$26,716	$20,194	$6,522	75.59%	$19,420	$7,296	72.69%	80,530	109,033
Custodial Subtotal	$77,551	$60,317	$17,234		$57,940	$19,611		299,719	476,586
2. Other Funds to Which the State Contributes									
Local Police & Fire Associations[8]	140	155	-16	111.25%	155	-16	111.25%	125	208
St. Paul Teachers' Retirement Fund	1,593	1,007	585	63.25%	960	633	60.26%	3,455	8,737
Other Contribution Subtotal	$1,732	$1,163	$570		$1,115	$617		3,580	8,945
TOTAL	**$79,283**	**$61,480**	**$17,804**		**$59,055**	**$20,228**		**303,299**	**485,531**

[1]The information provided in this table reflects the condition of all funds as of June 30, 2016 and is derived from actuarial valuation results as of July 1, 2016. For additional information on the State's pension systems, refer to the State Financial Statements in APPENDIX F. See Note 8 – Pension and Investment Trust Funds (see pages F-82 through F-102) and Required Supplementary Information (see pages F-150 through F-161).

[2]The actuarial accrued liability of each of the pension funds is an estimate based on demographic and economic assumptions of the present value of benefits that the pension funds will pay during the assumed life expectancies of the applicable members after they retire.

[3]The actuarial value of assets of each of the pension funds represents the market-related value of the assets held by the pension funds as adjusted to reflect various actuarial methods including the smoothing of actuarial losses and gains (including investment losses and gains) over a five-year period.

[4]The UAAL of each of the pension funds reflects the amount of the excess of the actuarial accrued liability of a pension funds over its actuarial value of assets.

[5]The Funded Ratio of each of the pension funds reflects the quotient obtained by dividing the actuarial value of assets of the pension funds by the actuarial accrued liability of the Pension Plan. The Funding Ratio figures depicted in the table are the actuary's computations for each retirement fund, as reported in each fund's July 1, 2016 actuarial valuation report.

[6]The market value of assets of each of the pension funds represents the fair market value of the assets held by the pension fund.

[7]The Elective State Officers Retirement Fund merged into the Legislators Retirement Fund effective July 1, 2013. Both the Legislators and Elective State Officers defined benefit retirement plans are financed on a pay-as-you-go basis from the State's General Fund. Legislators and Elective State Officers first elected after July 1, 1997 are members of the State's Unclassified Employees Retirement Fund, a defined contribution plan.

[8]Information for local police and fire associations reflects values as of January 1, 2017 for Bloomington Fire Relief Association.

Source: Retirement Systems' GASB 67 and 68 Actuarial reports, Fiscal Year ended June 30, 2016.

Actuarial Valuation Requirements

State law regulates the administration of the pension funds. State law requires that all pension funds must conduct an actuarial valuation as of the end of the fiscal year. Two valuation reports are prepared. One is the accounting valuation report in accordance with GASB Statements 67-68 and is used for financial reporting by the retirement systems, State of Minnesota and employer units of the systems. This report is not intended as a basis for funding decisions. For more information, see "Recent Changes to Pension Obligation Reporting" below.

The other valuation report is the funding valuation report in accordance with Minnesota Statutes. The purpose of the actuarial funding valuation is to calculate the actuarial accrued liability in each of the pension funds which estimates on the basis of demographic and economic assumptions the present value of benefits each of the pension funds will pay to its retired members and active members upon retirement. Independent actuaries provide annual actuarial valuations for each of the pension funds, performed in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an Unfunded Actuarial Accrued Liability ("UAAL") of the applicable pension funds. An actuarial valuation will express the percentage that a pension fund is funded through a "Funding Ratio" which represents the quotient obtained by dividing the actuarial value of assets of the pension fund by the actuarial accrued liability of the pension fund. An actuarial valuation will also state an actuarially recommended contribution amount, which is a recommended amount that the State and other sponsoring employers contribute to the applicable pension fund. The actuarially recommended contribution consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL.

Description of Certain Statutory Actuarial Assumptions. To calculate the actuarial value of assets and actuarial accrued liability of each of the pension funds, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the pension fund is different from these assumptions, the UAAL of the pension fund may increase or decrease to the extent of any variances. Consequently, the calculated actuarially required contributions may be impacted.

In the case of the expected rate of return of assets, the actual rate of return on the pension funds depends on the performance of their respective investment portfolios. The investment portfolios of the respective pension funds can be highly volatile. The value of the securities in the investment portfolios can dramatically change from one fiscal year to the next, which could, in turn, cause substantial increases or decreases in the applicable UAAL.

The actuarial valuations of the pension funds use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the pension funds. For example, the pension funds use an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2016, the aggregate market value of all of the assets of the pension systems, as determined by the pension systems' actuaries, was approximately $57.940 billion. As of June 30, 2016, the aggregate actuarial value of all assets of the pension systems was $60.317 billion.

Recent Changes to Pension Obligation Reporting

GASB Statement No. 67: In June 2012, GASB issued GASB Statement No. 67 ("GASB 67"), which amends GASB Statement No. 25 and sets forth new standards that modify the financial reporting of the State's pension plans obligations. GASB 67 requires changes in plans presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total NPL. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the NPL to the discount rate, and increased investment disclosures. The new standard was effective commencing with the State's Fiscal Year 2014.

One significant change implemented by GASB 67 is that reporting under the new requirements is based on the market value of assets. This will likely result in increased volatility in the NPL and pension expense from year to year. Commencing with Fiscal Year 2014, however, the Retirement Systems' actuaries now also prepare a report for each system reflecting fiscal year results under the new accounting requirements.

The Fiscal Year 2016 GASB 67 Reports are based on Fiscal Year 2015 membership data rolled forward to Fiscal Year 2016, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets as of June 30, 2016. For the purpose of complying with GASB 67, the actuarial assumptions incorporate the use of market value of assets (as previously described) and the entry age normal ("EAN") actuarial method. The long-term expected rate of return is determined an estimate of expected future rates of return based on a method similar to the select-and-ultimate method described under "*Assumed Return and Asset Allocation*" above but could vary from system to system based on the cash flows associated with the system. The multiple rates are then reduced to a single discount rates used to measure the total pension liability. The respective single discount rate used for the Fiscal Year 2016 GASB 67 Reports were

4.17 percent for MSRS's largest fund, the General Employees Retirement Fund, 7.50 percent for PERA's largest fund, the General Employees Fund, and 4.66 percent for TRA. For the MSRS valuation, the expected rate of return on pension plan investments was 7.50%; the municipal bond rate was 2.85% (based on the FRB rate as of June 30, 2016). The resulting single discount rate as of July 1, 2016 was 4.17%.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans for fiscal year 2016 based on the GASB 67 Reports. The NPL is calculated using the plan assets of each system at their market value (Fiduciary Net Position) and a single discount rate (calculated as described above). The UAAL shown in the table STATUTORY METHOD FUNDING STATUS OF DEFINED BENEFIT PENSION FUNDS TO WHICH MINNESOTA PROVIDES GENERAL FUND RESOURCES, by contrast, uses a smoothing method to determine the Actuarial Value of Assets at the plan's assumed rate of return.

MINNESOTA RETIREMENT SYSTEMS
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS USING GASB STATEMENT NO. 67
Actuarial Valuation Date as of June 30, 2016
($'s in Thousands)

	Total Pension Liability	Plan Fiduciary Net Position[1]	NPL	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll[2]	NPL as a Percentage of Covered Payroll
MSRS:						
State Employees	$23,621,950	$11,223,065	$12,398,885	47.51%	$2,797,345	443.24%
State Patrol	1,122,970	629,992	492,978	56.10%	69,343	710.93%
Correctional Employees	2,232,382	899,592	1,332,790	40.30%	241,242	552.47%
Judges	345,033	165,905	179,128	48.08%	45,418	394.40%
Legislators[3]	154,701	0	154,701	0.0%	989	15,642.16%
MSRS Totals	$27,477,036	$12,918,554	$14,558,482	47.02%	$3,154,337	461.54%
TRA	$ 43,276,817	$ 19,424,431	$ 23,852,386	44.88%	$ 4,515,699	528.21%
PERA:						
General Employees	$ 26,114,413	$17,994,909	$ 8,119,504	68.91%	$ 5,773,708	140.63%
Police and Fire	11,111,264	7,098,090	4,013,174	63.88%	881,222	455.41%
Local Government Correctional	873,097	507,783	365,314	58.16%	188,816	193.48%
Total PERA	$38,098,774	$25,600,782	$12,497,992	67.20%	$6,843,746	182.62%

[1]Represents the market value of plan assets as of the actuarial valuation date.
[2]As of the actuarial valuation date.
[3]Is currently funded on a pay-as-you-go basis.
Source. Retirement Systems' GASB 67 and 68 Actuarial reports, Fiscal Year ended June 30, 2016.

The GASB 67 Reports present both an NPL and a funding percentage. Because the Retirement Systems use the EAN actuarial method for funding as the required method for their GASB 67 Reports, variances between the funding reports and GASB No. 67 Reports are primarily, but not exclusively, related to market value differences.

GASB 67 also requires an analysis to determine the sensitivity of the NPL to changes in the discount rate, if it were calculated 1 percent point lower or 1 percent point higher. The results for Fiscal Year 2016 are as follows:

MINNESOTA RETIREMENT SYSTEMS
SENSITIVITY OF THE FY 2016 NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE
USING GASB STATEMENT NO. 67
($'s in Thousands)

	With 1% Decrease		Current Discount Rate		With 1% Increase	
	Rate	**NPL**	**Rate**	**NPL**	**Rate**	**NPL**
MSRS						
State Employees	3.17%	$16,347,293	4.17%	$12,398,885	5.17%	$9,224,441
State Patrol	4.31%	$648,622	5.31%	$492,978	6.31%	$365,920
Correctional Employees	3.24%	$1,742,178	4.24%	$1,332,790	5.24%	$1,009,206
Judges	6.50%	$213,206	7.50%	$179,128	8.50%	$149,781
Legislators	1.85%	$173,150	2.85%	$154,701	3.85%	$139,340
TRA	3.66%	$ 30,727,835	4.66%	$ 23,852,386	5.66%	$ 18,252,557
PERA						
General Employees	6.50%	$11,532,102	7.50%	$ 8,119,504	8.50%	$5,308,452
Police and Fire	4.60%	$5,617,911	5.60%	$4,013,174	6.60%	$2,701,982
Local Government Correctional	4.31%	$ 550,050	5.31%	$365,314	6.31%	$221,092

Source. Retirement Systems' GASB 67 and 68 Actuarial reports, Fiscal Year ended June 30, 2016.

GASB Statement No. 68: In June 2012, GASB also issued GASB Statement No. 68, which sets forth new standards that will modify the accounting and financial reporting of the State's pension obligations. The new standard requires the State to report in its financial statements, the State's proportionate share of the NPL, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the asset (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The State's proportionate share would include both the share of the NPL associated with the State's employees contributing into the retirement plans as well as the State's share of contributions to PERA related to the former MERF, and to TRA related to the former DTRFA and the St. Paul Teachers' Retirement Fund as it meets the GAAP definition of a special funding situation.[1]

The new standard required recognition of additional liabilities associated with pensions over amounts previously required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a "crossover date." The new standard will be effective for the State in Fiscal Year 2015, although MSRS adopted GASB 68 for Fiscal Year 2014.

The majority of the participants in MSRS funds are State employees. See "MSRS - Actuarial Methods and Assumptions, GASB" and "MSRS - Actuarial Methods and Assumptions" for reporting information consistent with GASB 67 and GASB 68 requirements. Actuarial Methods and Assumptions used by the other funds are available directly from the funds and can be provided on request.

[1]The State of Minnesota's Fiscal Year 2016 Comprehensive Annual Financial Report will reflect the merger of the DTRFA into the TRA.

Pension Legislation and Litigation

In August 2007, the LCPR unanimously approved a modification to the *Standards for Actuarial Work*. This action permitted the actuary retained to calculate the actuarial value of assets allocated to the Post Retirement Investment Fund at market value, as required by GAAP, beginning with the July 1, 2007 actuarial valuation, instead of reporting these assets at an amount equal to the liabilities. The change in asset valuation method resulted in decreases to the actuarial value of assets and increases in the unfunded actuarial accrued liabilities for many of the retirement plans. The funding ratios reported in the following paragraphs reflect this change. In August 2010, the LCPR unanimously approved additional changes to the *Standards for Actuarial Work*.

In 2008, the Legislature enacted legislation that provided that if the composite funding ratio of the Minnesota Post Retirement Investment Fund ("MPRIF") fell below 80 percent at the end of any fiscal year, MPRIF would be abolished. On June 30, 2008, the MPRIF funding ratio was calculated to be 79.7 percent. On June 30, 2009, assets and liabilities attributable to retired members in the MPRIF were transferred to the respective active member funds. In conjunction with the dissolution, benefit recipients will receive future annual 2.5 percent post retirement benefit adjustments. The waiting period and proration schedule for the post retirement benefit adjustments paid in the first year of retirement were also revised.

In 2010, legislation was enacted to modify the annual 2.5 percent post retirement benefit adjustments. Beginning January 1, 2011, each statewide Retirement System has unique post retirement benefit adjustments. For the TRA, post-retirement benefits were frozen for 2011 and 2012. Beginning January 1, 2013, TRA benefit recipients have received a 2.0 percent adjustment annually. The benefit adjustment will increase from 2 percent to 2.5 percent once TRA's funding ratio exceeds 90 percent. For all of the defined benefit plans that the MSRS administers, with the exception of the State Patrol Retirement Fund, benefit recipients will receive a 2 percent adjustment annually. For the State Patrol Retirement Fund, benefit recipients will receive a 1.5 percent adjustment annually. The annual benefit adjustment will increase to 2.5 percent for each MSRS defined benefit fund when each fund's accrued liability funding ratio reaches 90 percent, determined on a market value of assets basis, except for the Legislators and Elective Officers Retirement Funds. For the Legislators and the Elective State Officers Retirement Funds, the annual benefit adjustment will increase to 2.5 percent when the State Employees Retirement Fund is 90 percent funded on a market value of assets basis. Benefit recipients of the PERA Public Employees Police and Fire Fund have received an annual adjustment equal to inflation up to 1.5 percent beginning January 1, 2013, until the funding reaches 90 percent. PERA's Public Employees Correctional Fund was 98.4 percent funded on a market value basis as of June 30, 2011, so subsequent annual adjustments increased to 2.5 percent effective January 1, 2012. In addition, for all of the PERA plans, if after reaching 90 percent funding, the ratio subsequently drops below 90 percent, the prospective annual adjustments must again be one percent for PERA General Employees Retirement Fund and inflation up to 1.5 percent for the PERA Public Employees Police and Fire Fund until the 90 percent funded ratio is again attained.

A class action lawsuit was filed in May 2010 against the State's pension funds. *Swanson, et al. v. State, Public Employees Retirement Association, Minnesota State Retirement System, Teachers Retirement Association (PERA, MSRS, TRA), et al.* (Ramsey County District Court). Plaintiffs challenged the 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. The district court granted summary judgment to the State on all issues and dismissed the plaintiffs' complaint. Plaintiffs had until September 6, 2011 to appeal. No appeal was filed by the deadline.

The 2010 pension bill provided numerous financial stability provisions intended to reduce future unfunded liabilities for MSRS, TRA, PERA, SPTRFA and DTRFA. Provisions included a change in future retirement benefit increases for all MSRS, PERA, TRA, SPTRFA and DTRFA plans. The MSRS State Patrol Retirement Plan, PERA General Employees Retirement Fund, PERA Public Employees Police and Fire Fund, TRA, SPTRFA, and DTRFA plans also include both employer and employee contribution rate increases. Various other provisions as well as a change in refund rates, change in deferred annuities augmentation rate, and increased vesting periods for some plans as a means to reduce future unfunded liabilities. At the end of Fiscal Year 2010, MSRS, PERA, and TRA lowered unfunded liabilities by a total of over $5.9 billion on a combined basis.

The 2010 legislation also provided for the administrative consolidation of the closed MERF and PERA. MERF assets and liabilities remained segregated until the fiscal year end market value of assets of the MERF account equals or exceeds 80 percent of the actuarial accrued liability of the MERF account. The legislation also increased the annual State contribution to the MERF account from $9 million annually to $22.75 million in each Fiscal Year 2012 and 2013 and $24 million each year thereafter through FY 2031. Beginning in Fiscal Year 2013, the annual additional employer supplemental contribution is a minimum of $27 million and a maximum of $34 million.

The 2010 Legislature passed into law an early retirement incentive for eligible State employees. The incentive includes up to 24 months of health insurance payments in to a health care savings account for an employee who is granted the incentive. This provision is at the discretion of both the employee's agency and the Commissioner of MMB. In April 2011, MMB released a report detailing the results of the legislation. In all, 1030 employees used the incentive resulting in an estimated Fiscal Years 2011 – 2013 executive branch all funds savings of $46.7 million.

In the 2011 Legislative Special Session, the Legislature passed a minor omnibus pension bill that was signed into law by the Governor. Included in the bill were modifications to the post retirement adjustments for SPTRFA that will reduce future liabilities and language permitting voluntary merger of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association with the PERA's Public Employee's Police and Fire Retirement Fund.

The 2012 Legislature modified the investment earnings assumption for determining employee and employer contribution rates such that contributions plus expected investment earnings (at the assumed rate of return) will cover the projected cost of promised pension benefits. The investment earnings assumption was modified to a "select and ultimate" method, effective for July 1, 2012 actuarial valuation report. The "select" assumed annualized investment return of 8.0 percent is to be used for the first five years for Fiscal Year 2013 through Fiscal Year 2017 actuarial valuation reports, and the "ultimate" assumed annualized investment return rate of 8.5 percent is to be used for the sixth year forward, for Fiscal Year 2018 and years thereafter, with the exception of the Legislators and Elective State Officers Retirement Funds, which changed from 8.5 percent to zero percent for all years. This approach is employed to recognize the current market environment that has diminished the short term market expectations while recognizing that over the longer term the higher rate is expected to be met -- and actually has been met and exceeded. The legislation also directed delaying the next experience study until 2015 for TRA, MSRS's General Employees Retirement Plan, and PERA's General Employees Retirement Fund to cover the six-year period of July 1, 2008, through June 30, 2014.

The 2013 Legislature made several modifications to contribution rates, benefit formulas and direct State aid for the MSRS State Patrol Retirement Plan and Judges Retirement Plan.

- Changes to the MSRS State Patrol Retirement Plan include a four percent contribution rate increase from employees and a six percent increase from employers over a four year period. Specifically, State Patrol Retirement Plan employees paid an additional two percent before the first day of the first pay period beginning after July 1, 2014, another one percent on or after the first day of the first pay period beginning after July 1, 2015, and another one percent on July 1, 2016. State Patrol Retirement Plan employers added 3 percent of pay before the first day of the first pay period beginning after July 1, 2014, another 1.5 percent on or after the first day of the first pay period beginning after July 1, 2015 and another 1.5 percent on July 1, 2016. Total contributions at the end of the phase-in period in July 2016 will be 14.4 percent and 21.6 percent of pay for employees and employers, respectively. Future annual adjustments paid to benefit recipients of the MSRS State Patrol Plan will be reduced from 1.5 percent to one percent per year until the Plan is again 85 percent funded, determined on a market value of assets basis. Annual adjustments will increase to 2.5 percent when the Plan reaches 90 percent funded, determined on a market value of assets basis. Additionally, the Legislature appropriated direct State aid to the MSRS State Patrol Retirement Plan of $1 million per year beginning in FY 2014 until the plan is 90 percent funded, determined on a market value of assets basis.

- Changes to the MSRS Judges Retirement Plan include establishment of a tier 1 and tier 2 benefit program, with a tier one judge first appointed or elected on or before July 1, 2013, with five or more years of allowable service, and a tier two judge first appointed or elected after June 30, 2013, or first appointed on or before July 1, 2013, with less than five years of allowable service. Member contribution rates for judges in the tier one program will increase one percent, from eight percent to nine percent, effective July 1, 2013. Member contribution rates for judges in the tier two program will be 7 percent of salary. Employer contribution rates will increase two percent, from 20.5 percent to 22.5 percent, effective the first day of the first full pay period after June 30, 2013. Future annual adjustments paid to benefit recipients of the Judges Plan are reduced from two percent to 1.75 percent per year until the Judges Plan is again 70 percent funded, determined on a market value of assets basis. Thereafter, annual adjustments will be 2.5 percent.

The 2013 Legislature also authorized the merger of the MSRS Elective State Officers Retirement Plan into the Legislators Retirement Plan for administrative cost-saving purposes. The merger took effect July 1, 2013. Benefit provisions for both plans remain unaffected by the merger.

The 2013 Legislature also made several modifications to contribution rates, benefit formulas and direct State aid for the PERA Police and Fire Fund, TRA, DTRFA and SPTRFA. Changes to the PERA Police and Fire Fund include the following: member and employer contributions will increase in two steps from 9.6 percent of salary to 10.8 percent of salary and 14.4 percent of salary to 16.2 percent of salary, respectively; post-retirement adjustments will be set at 1 percent until the fund becomes at least 90 percent funded on a market value basis for two consecutive actuarial valuations, and at that time, post-retirement adjustments will be reset at rates not to exceed 2.5 percent. However, if the funded ratio of the retirement fund is equal to or less than 85 percent for two consecutive actuarial valuations, or is equal to or less than 80 percent for the most recent actuarial valuation, post retirement adjustments will again be dropped to one percent. Additionally, direct State-aid to the PERA Police and Fire Fund was appropriated at $9 million per year beginning in Fiscal Year 2014; and, a direct appropriation of $5.5 million per year in aid to local employers in the PERA Volunteer Firefighter Plan beginning in Fiscal Year 2014.

Further, 2013 legislative changes included, to the DTRFA, employee contributions will increase by one percent of pay and employer contributions increased by 0.71 percent of pay, current benefit accrual rates of 1.2 percent and 1.7 percent are increased to 1.4 percent and 1.9 percent for post-2013 service credit, and direct State aid increased to $6.346 million from $346 thousand in FY 2014 and 2015 only. Changes to the SPTRFA include the following: employee and employer contributions increased by one percent of pay each, current benefit accrual rates of 1.2 percent and 1.7 percent are increased to 1.4 percent and 1.9 percent for post-2015 service credit, and direct State-aid increased to $9.827 million from $2.827 million in Fiscal Year 2014 and Fiscal Year 2015 only. Other changes include modifying reduction factors applied to members retiring prior to normal retirement age for TRA, SPTRFA and DTRFA; requiring TRA, SPTRFA and DTRFA to jointly study the feasibility of a merger with a report ready for the 2014 Legislature's review.

The 2014 Legislature acted to fully merge DTRFA with TRA, effective June 30, 2015, with approval from the DTRFA board and membership and the TRA board. As part of the merger legislation, $14.031 million in new direct aid to the TRA was annually appropriated beginning in Fiscal Year 2015 with expiration occurring when the TRA is fully funded. Additionally, $346 thousand in annual State-aid to DTRFA was transferred to TRA beginning in FY 2015. The 2014 Legislature also voted to extend the $7 million in annual State-aid to SPTRFA until the fund is fully funded. This aid expired after FY 2015.

Further, the 2014 Legislature changed the trigger mechanism for post-retirement benefit adjustments from one-year to two years for TRA and all MSRS plans. For TRA, MSRS General Employees Retirement Fund, MSRS Correctional, MSRS Legislators, and MSRS Unclassified the post-retirement adjustment trigger procedure was revised to require the funding ratio based on market value for the applicable plan to be 90 percent or greater in two consecutive actuarial valuations, rather than in a single actuarial valuation, before post-retirement adjustments greater than 2 percent can be paid. For the MSRS Judges plan, a funding ratio based on market value of assets of at least 70 percent in two consecutive actuarial valuations, rather than in a single actuarial valuation, must be reached before post-retirement adjustments of 1.75 percent can be paid. For the MSRS State Patrol Plan, the funding ratio must exceed 85 percent for two consecutive valuations, rather than a single valuation, before post retirement adjustments are increased 2 percent. Additionally, the 2014 Legislature codified contribution rate increases of covered payroll of 0.5 percent employee/0.5 percent employer for MSRS General Employees Retirement Fund effective July 1, 2014, 0.5 percent employee/0.75 percent employer for MSRS Correctional effective July 1, 2014 and 0.25 percent employee/0.25 percent employer for PERA General Employees Retirement Fund effective January 1, 2015.

The 2015 Legislature reduced the interest rate actuarial assumption from 8.5 percent to 8 percent for MSRS, PERA, and SPTRFA for State Fiscal Year 2016 and beyond. Related reductions in salary and payroll growth were also included. The TRA "select and ultimate" investment rate assumption remained unchanged by the 2015 Legislature. Changes were also made to contribution stabilizer mechanisms for the PERA, MSRS, and TRA boards to allow more discretion to the boards in considering multiple factors. The interest rates charged to members who pay refunds or purchase leave and prior service credit were also adjusted.

Further, the 2015 Legislature revised the financial sustainability triggers for post-retirement adjustment mechanisms for MSRS, TRA, and SPTRFA. Under current law, post retirement benefits will automatically increase when certain funding levels are met for each plan. The changes enacted by the Legislature in 2015 require that, once these increases are enacted, the will be automatically reduced if funding ratios fall below certain levels for each plan.

The 2015 Legislature also completed the merger of PERA and MERF. The annual State aid contribution to PERA following the merger with MERF was reduced by $18 million per year for the Previous Biennium, and by $8 million per year for future fiscal years. The reduction is due to a downward revision of the estimated aid needed by the plan following the merger.

In 2016, following the experience studies completed by the MSRS General Employees Retirement Fund, PERA General Employees Retirement Fund and TRA, the LCPR approved adoption of several updated actuarial assumptions, including new mortality tables as well as other economic, demographic, and technical assumptions. These assumption changes do not require approval of the full legislature.

The LCPR also approved an omnibus pension bill that contained changes to TRA's discount rate assumption, which does require approval by the full legislature. Specifically, the bill eliminated the select and ultimate discount rate assumption, replacing it with an 8 percent rate assumption for all years. Also included in the bill was a one-year reduction to retiree cost of living increases for TRA and MSRS members (with the exception of Judges and State Patrol plan members), as well as other policy changes, administrative changes, and legislation related to individuals or small groups of members.[1]

Following approval by the LCPR, this bill was passed by both the House and Senate. Governor Mark Dayton vetoed the bill.[2] In his veto letter, Governor Dayton expressed concern that the final bill placed the onus of the sustainability measures

[1]A summary of the 2016 omnibus pension bill (S.F. 588) can be found here:
http://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2016/S0588-2_Summary.pdf.
[2]Governor Dayton's veto message regarding Chapter 177 (S.F. 588) can be found here:

on the backs of current retirees, rather than reflecting a shared responsibility from all stakeholders. The Governor, in his veto message, cited future legislation must reflect a shared participation and be funded, in order to gain his signature.

The 2016 Legislature also directly appropriated $3 million in Fiscal Year 2017 and $6 million for Fiscal Year 2018 and beyond for the MSRS Judges Retirement Plan. This appropriation continues until the plan reaches 100 percent funding.

The 2017 Legislature passed an omnibus pension bill (Laws of Minnesota 2017,1st Special Session, Chapter 2) that increased employee and employer contributions to MSRS's General Employees Retirement Plan, State Patrol Correctional Plan, and Correctional Employee Retirement Plan, and PERA's Public Employees Police and Fire Plan. The bill also increased the employer contribution to plans in the St. Paul Teacher's Retirement Fund. In addition, the bill reduced the discount rate assumption from 8.0% for 7.5% and reset the amortization period to 2047 for all funds other than the Teachers Retirement Fund. The bill also contained a variety of benefit reductions affecting different plans related to cost of living adjustments, deferred augmentation, enhanced augmentation, early retirement augmentation, and refund interest rates, although TRA was not impacted by these changes. The bill contained funding to state agencies, the judicial branch, and to St. Paul Public Schools to pay for the increased employee contribution rates, and it also included direct appropriations to PERA's Public Employees Police and Fire Fund and the St. Paul Teachers' Fund.[3] Governor Dayton vetoed the bill; thus, these changes were not enacted. In his veto letter, the Governor stated that the bill was vetoed due to provisions unrelated to pensions that would have preempted local governments' ability to set wage and other labor standards different than those prescribed under state statute.[4]

The 2017 Legislature also reduced the annual state aid to PERA's MERF Account from $16.0 million annually to $6.0 million annually beginning in Fiscal Year 2020.

As mentioned above, the State is the primary employer for MSRS, and is only a minor employer in the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State has historically appropriated general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans. Provided below is more detailed information related to MSRS's State Retirement System Fund's actuarial valuations, actuarial methods and assumptions, historical funding, eligibility and benefit formulas, as well as historical funding history for other State employer contribution and General Fund appropriations.

MSRS – ***Statutory Funding Actuarial Valuations***

While MSRS administers five defined benefit pension funds, the three largest funds, the State Employees Retirement Fund, the Correctional Employees Retirement Fund, and the State Patrol Retirement Fund, represent 97 percent of the actuarial accrued liabilities for which MSRS is responsible. Refer to the MSRS Comprehensive Annual Financial Report for further discussion of actuarial valuations for the MSRS defined benefit pension funds as of July 1, 2016 (available online at https://www.msrs.state.mn.us/financial-information).

The State Employees Retirement Fund which includes the General Employees Retirement Plan, the State Fire Marshals Plan, the Military Affairs Plan and the Transportation Pilots Plan, is 81.56 percent funded with the actuarial value of assets totaling $11.676 billion, and the actuarial accrued liability totaling $14.317 billion. For purposes of determining the actuarial value of assets, assets are based on a five-year moving average of expected and market values. The State Employees Retirement Fund's funding status, determined on a market value of assets basis, decreased from 88.89 percent as of the July 1, 2015 actuarial valuation to 78.39 percent as of the July 1, 2016 actuarial valuation. This reduction in funding status is attributed to less than expected investment returns (the actual rate of return of was negative 0.01 percent for fiscal year 2016 in comparison to an 8.0 percent expected return and an actual return of 4.4 percent for fiscal year 2015).

The actuarial valuation also calculates the required contribution rates that are necessary to ensure that the MSRS funds become fully funded. Under Minnesota statutes, the State Employees Retirement Fund must be fully funded by June 30, 2042, the State Patrol Retirement Fund must be fully funded by June 30, 2038, and the Correctional Employees Retirement Fund must be fully funded by June 30, 2038, and the Judges Retirement Fund must be fully funded by June 30, 2039. The June 30, 2016 actuarial valuation for the State Employees Retirement Fund calculated that statutory contributions currently received from members and employers at 3.49 percent below the amount required to fully fund the MSRS funds by 2041. The contribution deficiency rate increased from 1.44 percent to 3.49 percent of payroll (projected annual payroll for the Fiscal Year beginning on the July 1, 2016, valuation date was $2.80 billion). In October, 2016, the MSRS Board approved a funding

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https://www.leg.state.mn.us/archive/vetoes/2016veto_ch177.pdf.

[3] A summary of the pension-related provisions in Chapter 2 (S.F. 3) can be found here: http://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2017/SS_SF3_Summary.pdf

[4] Governor Dayton's veto letter regarding Chapter 2 (S.F. 3) can be found here: https://www.leg.state.mn.us/archive/vetoes/2017_sp1veto_ch2.pdf

package to address the contribution deficiencies in the 2017 Legislative Sessions. MSRS proposed legislation in the 2017 session. The MSRS proposal increased employee contribution rates from 5.50 percent to 6.00 percent, and employer contribution rates from 5.5 percent to 7.0 percent, effective July 1, 2018. Additionally, MSRS proposed to implement an additional 1.00 percent employer contribution rate effective July 1, 2020. MSRS was also seeking to reduce the post-retirement benefit increase from 2.00 percent to 1.50 percent, and eliminate the automatic trigger that would raise the post-retirement benefit increase to 2.50 percent. This legislation was not passed into law during the 2017 Legislative Sessions.

Actuarial valuation result as of July 1, 2016, show that the MSRS Correctional Employees Retirement Fund is 71.34 percent funded with the actuarial value of assets totaling $937.0 million, and the actuarial accrued liability totaling $1.314 billion. The contribution deficiency increased from 5.46 percent of payroll as of July 1, 2015 to 5.61 percent of payroll as of July 1, 2016 primarily due to less than expected investment returns. Funding status, determined on a market value of assets basis decreased from 73.35 percent as of the July 1, 2015, actuarial valuation to 68.49 percent as of the July 1, 2016 actuarial valuation. This decline in funding status is attributed to lower than expected investment returns (the actual rate of return was 0.01percent in comparison to an 8.0 percent expected return). To minimize the contribution deficiency, MSRS sought legislative approval in the 2016 session to reduce the post-retirement benefit increase from 2.00 percent to 1.75 percent. This legislation was not passed in the 2016 session. MSRS proposed legislation in the 2017 Legislative Sessions to increase employee contribution rates from 9.10 percent to 9.60 percent and employer contributions rates from 12.85 percent to 14.40 percent, effective July 1, 2018. MSRS was also seeking legislation to add an additional employer contributions of 4.45 percent of annual payroll effective July 1, 2018. Additionally, MSRS was seeking to reduce the post-retirement benefit increase from 2.00 percent to 1.50 percent and eliminate the automatic trigger that would raise the post-retirement benefit increase to 2.50 percent. As noted above, the MSRS maintenance proposal was not passed into law during the 2017 Legislative Sessions.

The State Patrol Retirement Fund is 78.53 percent funded with the actuarial value of assets totaling $654.8 million, and the actuarial accrued liability totaling $833.9 million based on July 1, 2016 actuarial valuation results. The contribution deficiency decreased from 7.98 percent of payroll to 3.08 percent of payroll. The primary reasons for the decreased contribution deficiency are the recognition of deferred gains on assets from prior years and the decrease in liability due to an assumed delay in the 1.50 percent and 2.50 percent post-retirement benefit increases. Additionally, employee and employer contributions increased an additional 2.50 percent of payroll on July 1, 2016. The annual State contributions of $1 million are reflected in the computations of the contribution deficiency as of the July 1, 2016 actuarial valuation date. The funding status, determined on a market value of assets basis, decreased from 79.77 percent as of the July 1, 2015 actuarial valuation to 75.55 percent as of the July 1, 2016 actuarial valuation. This decline in funding status is attributed to lower than expected investment returns, as noted in previous paragraphs. To continue to reduce the contribution deficiency, MSRS proposed legislation in the 2017 sessions to increase employee contribution rates from 14.40 percent to 14.90 percent and employer contributions rates from 21.60 percent to 22.35 percent, effective July 1, 2018. MSRS was also seeking legislation to increase employee contribution rates from 14.90 percent to 15.40 percent and employer contributions rates from 22.35 percent to 23.10 percent, effective July 1, 2020. MSRS was also seeking legislation to add an additional employer contributions of 7.00 percent of annual payroll effective July 1, 2018. Additionally, the proposal would have eliminated the automatic trigger that would raise the post-retirement benefit increase to 1.50 percent. As noted above, the MSRS maintenance proposal was not passed into law during the 2017 Legislative Sessions.

The Judges Retirement Fund is 52.07 percent funded, with the actuarial value of assets totaling $172.5 million and the actuarial accrued liability totaling $331.3 million based on July 1, 2016 actuarial valuation results. The contribution deficiency for the plan decreased from 11.89 percent of payroll as of the July 1, 2015 actuarial valuation to 6.28 percent of payroll as of the July 1, 2016 actuarial valuation. The primary reason for the decreased contribution deficiency is because the 2016 Legislature passed a law for the Judges Retirement Fund to receive $3 million in fiscal year 2017 and $6 million each fiscal year thereafter until the plan reaches 100.0 percent funding as determined by an actuarial evaluation. Funding status, determined on a market value of assets basis, decreased from 55.31 percent as of the July 1, 2015 actuarial valuation to 50.07 percent as of the July 1, 2016 actuarial valuation. This decline in funding status is attributed to lower than expected investment returns, as noted in previous paragraphs.

The Legislators Retirement Fund is funded on a pay-as-you-go basis with annual appropriations from the State's General Fund.

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MSRS – Statutory Actuarial Methods and Assumptions

Statutory: The annual 5.5 percent employer and 5.5 percent employee contributions for State Employees Retirement Fund were established by State statute. The calculated actuarially required contribution of the MSRS General Employees Retirement Plan, the largest State funded plan, was determined using methods and assumptions:

MSRS GENERAL EMPLOYEES RETIREMENT PLAN
STATUTORY ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Cost Method	Individual entry age normal
Rate of Return on the Investment of Present and Future Assets	8.0% per year
Projected Salary Increases	Reported salary at the valuation date increased according to the rate table, to current fiscal year and annually for each future year. Prior fiscal year salary is annualized for members with less than one year of service.
Payroll Growth	3.50% per year.
Experience Studies	Period Covered: Fiscal Year 2009-2014
Asset Valuation	Asset valuations are based on market values at the end of the fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. The unrecognized asset return is the difference between the actual net return on the market value of assets and the asset return expected during the fiscal year based on the assumed interest rate.
Total Unrecognized Investment Return (loss) at June 30, 2016	$(453,305,000)

Sources: MSRS Comprehensive Annual Report, June 30, 2016, and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2016.

The methods and assumptions used to calculate actuarially required contribution of the other defined benefit plans in the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2016. See "General Information" above. Also see "Pension Legislation and Litigation" for information on changes that came into effect after June 30, 2016, to the methods and assumptions used to calculate actuarially required contribution for defined benefit plans.

MSRS - Historical Funding

The actuarial valuations measure current costs and contribution requirements to determine how much employers and members should contribute to maintain appropriate funding progress to pay future benefits. Actuarial valuations also measure assets and liabilities to determine the level of funding for each defined benefit plan. The table below provides a historical comparison of the statutory actual employee and employer contribution rates (on a percentage of annual payroll basis) compared to the calculated actuarially recommended rate (the calculated actuarial required contribution).

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MINNESOTA STATE RETIREMENT SYSTEM
PERCENTAGE OF PAYROLL ACTUAL CONTRIBUTION RATES AS COMPARED TO STATUTORY ACTUARIALLY RECOMMENDED RATES
TEN-YEAR CONTRIBUTION HISTORY

As of	*Statutory Actual Contribution Rates*			*Actuarial Recommended Rate*	*Sufficiency/ Deficiency Employee*
	Employee	*Employer*	*Total*		
July 1, 2007	4.25%	4.25%	8.50%	11.76%	(3.26)%
July 1, 2008	4.50%	4.50%	9.00%	12.39%	(3.39)%
July 1, 2009	4.75%	4.75%	9.50%	14.85%	(5.35)%
July 1, 2010	5.00%	5.00%	10.00%	10.99%	(0.99)%
July 1, 2011	5.00%	5.00%	10.00%	11.03%	(1.03)%
July 1, 2012	5.00%	5.00%	10.00%	12.32%	(2.32)%
July 1, 2013	5.00%	5.00%	10.00%	12.45%	(2.45)%
July 1, 2014	5.50%	5.50%	11.00%	12.82%	(1.82)%
July 1, 2015	5.50%	5.50%	11.00%	12.44%	(1.44)%
July 1, 2016	5.50%	5.50%	11.00%	14.49%	(3.49)%

Sources: MSRS Comprehensive Annual Financial Reports (2007 – 2016) – Schedule of Actual Contribution Rates as Compared to Actuarially Recommended Rates.

Further, the better the level of funding, the larger the ratio of assets to accrued liabilities and the greater the level of investment income potential. A higher funding ratio means that present assets and projected investment earnings on those assets are sufficient to cover the liabilities for present and future annuities, survivor and disability benefits, refunds, and administrative expenses.

MINNESOTA STATE RETIREMENT SYSTEM STATE EMPLOYEES RETIREMENT FUND
TEN-YEAR FUNDING HISTORY
($'s in Thousands)

	Aggregate Accrued Liabilities				**Portion Covered by Reported Assets**			
Valuation Date (July 1)	**Active Member Contributions (1)**	**Retirees and Beneficiaries (2)**	**Employer Financed Portion (3)**	**Reported Assets**	**% (1)**	**% (2)**	**% (3)**	**Funding Ratio (%)**
2007	$1,001,316	$3,963,536	$4,662,453	$8,904,517	100	100	84.5	92.5
2008	1,041,731	4,251,341	4,701,530	9,013,456	100	100	79.1	90.2
2009	1,102,082	4,496,247	4,914,431	9,030,401	100	100	69.8	85.9
2010	1,155,473	4,535,401	4,573,197	8,960,391	100	100	71.5	87.3
2011	982,365	4,982,212	4,611,904	9,130,011	100	100	68.6	86.3
2012	1,044,810	5,489,756	4,548,661	9,162,301	100	100	57.8	82.7
2013	1,090,373	5,807,381	4,530,887	9,375,780	100	100	54.7	82.0
2014	1,128,164	6.471,998	4,844,964	10,326,272	100	100	56.3	83.0
2015	1,161,369	6,949,000	4,982,333	11,223,285	100	100	62.5	85.7
2016	1,206,968	7,746,511	5,363,407	11,676,370	100	100	50.8	81.6

Source: MSRS Comprehensive Annual Report, June 30, 2016 – Solvency Test for Last Ten Fiscal Years.

The historical funding history of the other defined benefit plans in the Retirement Systems is provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2016. See "General Information" above.

MSRS – Eligibility and Benefit Formulas

Provided below is a description of the eligibility and benefit formulas of the MSRS General Employees Retirement Plan, the largest plan of the State Employees Retirement Fund.

MSRS General Employees Retirement Plan

A. Coverage	Most State employees, University of Minnesota non-instructional employees, and selected metropolitan agency employees
B. Contribution Rates	Employees: 5.5 percent effective July 1, 2014 Employers: 5.5 percent effective July 1, 2014 Employee contributions are "picked up" according to the provisions of Internal Revenue Code 414(h).
C. Benefit Formula	If first hired before July 1, 1989, the benefit formula is the greater of (a) or (b): (a) 1.2 percent of a high-five year salary for the first 10 years of allowable service plus 1.7 percent of high-five salary for each subsequent year. This benefit is reduced for each month the member is under age 65 at time of retirement, or under age 62 with 30 years of allowable service. There is no reduction in the formula if the member's age plus years of allowable service totals 90 (Rule of 90). (b) 1.7 percent of high-five year salary for each year of allowable service assuming augmentation to age 65 at 3 percent per year and an actuarial reduction for each month the member is under age 65. If first hired after June 30, 1989, the benefit formula is 1.7 percent of high-five year salary for each year of allowable service with an actuarial equivalent, early retirement reduction for each month the member is under the normal retirement age. Salary includes wages and other periodic compensation. It excludes lump sum payments at separation, employer contributions to deferred compensation and tax sheltered annuity plans, and benevolent vacation and sick leave donation programs. The high-five average salary is the average salary from the sixty-successive month period with the highest gross salary.
D. Retirement Age and Service Requirements	*Eligibility for unreduced retirement benefits:* Age 65 for employees hired before July 1, 1989, or age 66 for employees hired on or after July 1, 1989 Age eligible for full Social Security retirement benefits (but not higher than age 66) if hired before July 1, 1989; with three or more years of allowable service (five years if hired after June 30, 2010) Rule of 90 for those employees hired before July 1, 1989. *Eligibility for reduced retirement benefits:* Age 55 with three years of service if hired prior to July 1, 2010, or five years of service if hired after June 30, 2010, reduced from full retirement age Any age with 30 years of service, reduced from age 62 (pre-July 1, 1989 hires only) The plan also offers total and permanent disability benefits for employees with at least three years of service (five years of service after June 30, 2010).
E. Surviving Spouse Benefit	If employee has at least three years of service at death, (five years if hired after June 30, 2010), generally, the spouse is eligible for a 100 percent survivor annuity or a refund.
F. Refunds	Employee contributions plus 6 percent interest compounded annually through June 30, 2011, and 4 percent thereafter.

Source: Minnesota State Retirement System 2016 Comprehensive Annual Financial Report.

Eligibility and benefit formulas for the various plans covered under the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2016. See "General Information" above.

MSRS - Employer Contributions

The following table summarizes the employer contributions made to the MSRS for the last 10 years. Contributions are made from a variety of State funds, the largest single source being the General Fund. Based on payroll expense data for Fiscal Year 2016, when excluding component units, approximately 15 percent of State employer contributions came from the Trunk Highway Fund and 6 percent from federal funds. All other State employer contributions were from 96 other funds of the State. Component units receive funding from a variety of State and non-State sources.

MINNESOTA STATE RETIREMENT SYSTEM EMPLOYER CONTRIBUTION HISTORY
MINNESOTA STATE RETIREMENT SYSTEM
($'s in Thousands)

Fiscal Year Ended (June 30th)	Employer Contributions[1]						Total
	State Employees Retirement Fund	Correctional Employees Retirement Fund	Elective State Officers Fund[2]	Judges Retirement Fund	Legislators Retirement Fund[2]	State Patrol Retirement Fund	
2007	$86,492	$13,927	$427	$7,572	$1,772	$7,461	$117,651
2008	96,746	18,623	435	7,936	2,217	8,279	134,236
2009	107,211	20,126	442	8,219	1,269	9,178	146,445
2010	113,716	21,988	453	8,283	1,975	10,104	156,519
2011	118,563	23,982	460	8,297	2,805	9,873	163,980
2012	115,159	24,188	465	7,922	3,935	11,620	163,289
2013	121,673	24,632	470	8,177	3,399	11,482	169,833
2014	128,037	26,468	N/A	9,426	3,436	11,894[3]	179,261
2015	146,333	29,480	N/A	9,776	3,216	13,763[3]	202,568
2016	151,168	30,678	N/A	10,219	5,087	13,938[3]	211,090

(1) Other than contributions described in the footnotes below, all other plans are bi-weekly employer contributions. Amounts exclude the State's employer contribution to the Unclassified Employees Retirement Fund (Defined Contribution Plans). For FY2016, employer contributions to this fund were $6,187,000.

(2) Effective July 1, 2013, the Elective State Officers Fund was merged into the Legislators Retirement Fund. The Legislators Retirement Fund is funded on a pay-as-you-go basis from the State's General Fund.

(3) Other Employer contributions to the State Patrol Retirement Fund do not include the $1 million supplemental State aid that the fund received during Fiscal Year 2016 because its funding ratio, determined on a market value of assets basis, was less than 90 percent. This amount is recognized as other income in MSRS' financial statements.

Sources: MSRS Comprehensive Annual Financial Reports (2007-2016).

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MSRS – GASB Statements No. 67 and No. 68 Actuarial Valuation Results

To comply with GASB Statement No. 67, MSRS engaged actuaries to compute the NPL (total pension liability less Fiduciary Net Position) and pension expense amounts. Contributing employers are required, under GASB Statement No. 68, to report these amounts in their financial statements for fiscal years beginning after June 15, 2014 (State Fiscal Year 2015). The NPL will often be one of the largest amounts reported in an employer's financial statements. The new measures of these amounts (e.g., NPL, pension expense) are substantially different from the funding measures (e.g., funding ratio, actuarial accrued liability, contribution sufficiency/deficiency rate, etc.) primarily due to the actuaries utilizing GASB-compliant actuarial assumptions, rather than the actuarial assumptions prescribed in Minnesota Statutes, in their computations.

The calculated NPL of the MSRS General Employees Retirement Plan, the largest State funded plan, was determined using the following methods and assumptions.

MINNESOTA STATE RETIREMENT SYSTEM GENERAL EMPLOYEES RETIREMENT PLAN
GASB 67 ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Fair Value of Assets
Long-term Expected Return	7.50 percent
Inflation	2.50 percent
Salary Increases	In the valuation year, equal to prior year administrative expenses expressed as a percentage of prior year projected payroll. In each subsequent year, equal to the initial administrative expense percentage applied to payroll for the closed group.
Payroll Growth	3.25 percent
Mortality Rates	RP-2014 employee generational mortality table projected with mortality improvement Scale MP-2015. From a base year of 2014, white collar adjustment, set forward one year for males and no age adjustment for females.
Annual post-retirement benefit increases (e.g. cost of living adjustments)	2.0 percent

Sources: MSRS Comprehensive Annual Report, June 30, 2016 and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2016.

GASB Statements No. 67 and No. 68 actuarial valuation results show that on June 30, 2016, employers contributing to the MSRS' largest cost-sharing fund, the State Employees Retirement Fund (the General Employees Retirement Plan), incurred NPL of $12.4 billion. Actuaries determined this amount assuming a lower long-term expected single discount rate of return of 4.17 percent, an inflation rate of 2.50 percent, and payroll growth and salary increase assumptions that were 25 basis points less than the prescribed assumptions. As a result, employers will report pension expense of $1.8 billion, instead of a pension income. Lastly, as of the June 30, 2016 measurement date, Fiduciary Net Position as a percentage of the Total Pension Liability was 47.5 percent.

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GASB actuarial valuation results for all of the MSRS pension plans are depicted in the table below. Based on contributions received during Fiscal Year 2016, the State's proportionate share (including its component units: the University of Minnesota, Metropolitan Council, Minnesota Housing Finance Agency, Minnesota Office of Higher Education and the Minnesota Sports Facilities Authority) of the each MSRS defined benefit fund's NPL and Pension Expense/(Income), and related dollar amounts, are also presented below.

MINNESOTA STATE RETIREMENT SYSTEM
GASB STATEMENTS NO. 67 AND NO. 68 ACTUARIAL VALUATION RESULTS
June 30, 2016
($ in Thousands)

Retirement Fund	Total Pension Liability (TPL)	Plan Fiduciary Net Position (FNP)	Net Pension Liability (NPL)	Plan FNP As a % of TPL	State's Proportionate Share	State's Share of NPL	FY2016 Pension Expense / (Income)	State's Share of Pension Expense/ (Income)
State Employees	$23,621,950	$11,223,065	$12,398,885	47.5%	99.233%	$12,303,785	$1,799,612	$1,786,141
State Patrol	1,122,970	629,992	492,978	56.1%	100.000%	492,978	68,951	68,951
Correctional Employees	2,232,382	899,592	1,332,790	40.3%	99.908%	1,331,563	178,692	178,528
Judges	345,033	165,905	179,128	48.1%	100.000%	179,129	5,720	5,720
Legislators	154,701	0	154,701	0.0%	100.000%	154,701	18,525	18,525
Totals	$27,477,036	$12,918,554	$14,558,482	47.0%		$14,462,156	$2,071,500	$2,057,865

Source: MSRS 2016 Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016.

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Pension Disclosure in the State's Financial Statements

The following information from the State's Financial Statements is being presented due to differences in the between the Systems' financial reporting and the State's financial statement due to the one year lag between the disclosures in Systems' Comprehensive Annual Reports and the State's CAFR.

The State contributes as an employer and / or a non-employer contributing entity into certain defined benefit pension trust funds, which are considered qualified trust funds for the purposes of GAAP, both State administered plans and non-State administered plans.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 "Financial Reporting for Pension Plans", which amends GASB Statement No. 25, and GASB Statement No. 68 "Accounting and Financial Reporting for Pensions", which amends GASB Statement No. 27. These standards set forth modifications to the financial reporting requirements of the State as it relates to pensions. These statements require changes to the financial statements, notes to the financial statements and required supplementary information. The plans implemented GASB Statement No. 67 for the year ended June 30, 2014, and the State implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" for the year ended June 30, 2015.

The State Net Pension Liability (NPL) as an employer and non-employer contributing entity is recorded in the State's financial statements based on the State's share of the NPL of the applicable plan. In addition, the State's share of the effects of changes in certain assumptions are recorded as deferred outflows of resources and deferred inflows of resources and are amortized over the current and future periods.

The following table represents the plans the State contributes to as an employer and/or a non-employer contributing entity that are included in the State's financial statements.

Plan Administrator	Plans Covered
Minnesota State Retirement System (MSRS)	State Employees Retirement Fund (SERF) Correctional Employees Retirement Fund (CERF) Judges Retirement Fund (JRF) Legislators Retirement Fund (LRF) State Patrol Retirement Fund (SPRF)
Public Employees Retirement Association (PERA)	General Employees Retirement Fund (GERF)
Teachers Retirement Association (TRA)	Teachers Retirement Fund (TRF)
St. Paul Teachers' Retirement Fund Association	St. Paul Teachers' Retirement Fund (SPTRF)

Summary of State Pension Amounts
As of June 30, 2016
($'s in Thousands)

	State Administered				Non-State Administered	State Administered			
	Multiple Employer				Multiple Employer	Single Employer			
	SERF[1]	CERF[1]	GERF[1]	TRF[1]	SPTRF[1]	JRF[1]	LRF[1]	SPRF[1]	Total
State's Proportionate Share of the Net Pension Liability as an:									
Employer	$ 1,138,125	$ 653,352	$ 32,022	$ 239,701	$ 1,385	$ 236,392	$ 140,923	$ 173,705	$ 2,615,605
Non-Employer Contributing Entity	-	-	184,478	602,738	171,776	-	-	-	958,992
Total	$ 1,138,125	$ 653,352	$ 216,500	$ 842,439	$ 173,161	$ 236,392	$ 140,923	$ 173,705	$ 3,574,597
State's Proportionate Share % of the Net Pension Liability as of:									
Current Year Measurement Date	73.93%	99.86%	4.18%	13.62%	29.76%	100.00%	100.00%	100.00%	
Prior Year Measurement Date	73.38%	99.80%	0.70%	9.30%	30.65%	100.00%	100.00%	100.00%	
Difference between Expected and Actual Experience	$ -	$ 8,651	$ 2,008	$ 43,166	$ -	$ 3,048	$ -	$ -	$ 56,873
Changes in Assumption	-	98,532	13,483	64,761	7,079	17,357	-	20,038	221,250
Change in Proportionate Share	34,660	346	57,505	134,758	-	-	-	-	227,269
Contributions Subsequent to the Measurement Date	110,804	30,624	8,540	45,602	10,729	10,219	5,087	13,938	235,543
Deferred Outflows of Resources	$ 145,464	$ 138,153	$ 81,536	$ 288,287	$ 17,808	$ 30,624	$ 5,087	$ 33,976	$ 740,935
Difference between Expected and Actual Experience	$ 311,090	$ -	$ 10,915	$ -	$ 6,983	$ 3,493	$ -	$ 14,559	$ 347,040
Changes in Assumption	650,364	97,851	-	-	-	5,050	-	-	753,265
Net Difference Between Projected and Actual Earnings	230,450	22,898	19,273	64,432	3,856	4,861	487	18,927	365,184
Change in Proportionate Share	11,539	218	2,497	19,241	4,232	-	-	-	37,727
Deferred Inflows of Resources	$ 1,203,443	$ 120,967	$ 32,685	$ 83,673	$ 15,071	$ 13,404	$ 487	$ 33,486	$ 1,503,216
Net Pension Expense	$ (260,619)	$ 38,906	$ 41,684	$ 81,386	$ 10,087	$ 17,706	$ 5,554	$ 13,518	$ (51,778)

[1] Proportionate share was determined based on the State's percentage of employer and non-employer contributing entity contributions into the plan.

Pension Plans
Actuarial Assumptions

	State Administered				Non-State Administered	State Administered		
	Multiple Employer				Multiple Employer	Single Employer		
	SERF[1]	CERF[1]	GERF[1]	TRF[1]	SPTRF[1]	JRF[1]	LRF[1]	SPRF[1]
Actuarial Valuation/ Measurement Date	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015
Long-Term Expected Rate	7.90%	7.90%	7.90%	8.00%	8.00%	7.90%	7.90%	7.90%
20 Year Municipal Bond Rate[2]	3.80%	3.80%	3.80%	3.82%	3.80%	3.80%	3.80%	3.80%
Experience Study Dates	2004 - 2008	2006 - 2011	2004 - 2008	2004 - 2008	2006 - 2011	2007 - 2011	2012	2006 - 2011
Inflation	2.75%	2.75%	2.75%	3.00%	3.00%	2.75%	2.75%	2.75%
Salary Increases	Service Related Rates	Service Related Rates	3.25 - 11.78%	3.50 - 12.00%	4.00 - 8.90%	2.75%	5.0%	Service Related Rates
Payroll Growth	3.50%	3.50%	3.50%	3.75%	4.00%	2.75%	N/A	3.50%

(1) For mortality rate assumptions, the RP – 2000 Mortality table for males and females was used and adjusted for mortality improvements based on Scale AA. There are various adjustments in each plan to match experience.

(2) Source: Federal Reserve Board for SERF, CERF, GERF, SPTRF, JRF, LRF and SPRF, and the Board of Governors of the Federal Reserve System for TRF.

See STATE FINANCIAL STATEMENTS in APPENDIX F Note 8 - Pension and Investment Trusts (pages F-82 through F-102) and Required Supplementary Information (see pages F-150 through F-161), for additional information on pension disclosures related to the implementation of GASB 68. The State's Fiscal Year 2016 financial statements and corresponding pension related disclosures and required supplementary information are based on the June 30, 2015 GASB 67 & 68 Actuarial Report.

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The following table presents the NPL for each defined benefit plan with a primary government proportionate share of the NPL, calculated using the corresponding discount rate as well as what the NPL would be if the rate were one percentage point higher or lower.

State's Proportionate Share
Sensitivity of the Net Pension Liability to Changes in the Discount Rate
As of June 30, 2016
($'s in Thousands)

	With a 1% Decrease		Current Discount Rate		With a 1% Increase	
	Rate	NPL[1]	Rate	NPL[1]	Rate	NPL[1]
SERF	6.90%	$ 2,329,738	7.90% [4]	$ 1,138,125	8.90%	$ 146,484
CERF[3]	5.25%	899,472	6.25% [2][4]	653,352	7.25%	454,712
GERF	6.90%	340,415	7.90% [4]	216,500	8.90%	114,165
TRF[3]	7.00%	1,282,301	8.00%	842,439	9.00%	475,361
SPTRF	7.00%	266,030	8.00%	173,161	9.00%	129,301
JRF[3]	4.25%	282,854	5.25% [2][4]	236,392	6.25%	196,936
LRF[3]	2.80%	157,407	3.80% [2][4]	140,923	4.80%	127,130
SPRF	6.90%	270,947	7.90% [4]	173,705	8.90%	92,576

(1) Net Pension Liability.

(2) The long-term projected rate of return was used through 2054, 2034, and 2015 for CERF, JRF, and LRF respectively. The 20 year municipal bond rate was used subsequent to these years.

(3) The discount rate changed from 6.82, 8.25, 5.78, and 4.29 percent for CERF, TRF, JRF, and LRF, respectively.

(4) The long-term projected rate of return for SERF, CERF, GERF, JRF, LRF, and SPRF that will be used to calculate the net pension liability for Fiscal Year 2017 will change from 7.90 to 7.50 percent. This will have a significant impact on the calculation of the net pension liability for Fiscal Year 2017.

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POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Post-employment benefits other than pensions are available to certain employees of the State, and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes, Section 43A.27, subdivision 3, and Minnesota Statutes, Section 471.61, subdivision 2a, and required under the terms of selected employment contracts. All pre-age-65 State retirees with at least five years of allowable pension service who are entitled at the time of retirement to receive an annuity under the State retirement program are eligible to participate in the State's health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100 percent of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rate and are, therefore, subsidized by the insurance premiums rates for active State employees, resulting in an implicit rate subsidy. As of July 1, 2014, there were approximately 2,440 retirees participating in the State's insurance plan under this provision.

The State also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at State correctional facilities, and State troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the State until the retiree is age 65. The retiree is responsible for any other portion of the premiums. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age 65. As of July 1, 2014, there were approximately 975 correctional and law enforcement retirees receiving an explicit rate subsidy. The State does not issue a separate financial report for its OPEB as the State does not fund an OPEB plan and operates on a pay-as-you-go basis.

Funding Policy

The contribution requirement of plan members and the State are established and may be amended by the State legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For Fiscal Year ended June 30, 2016, the State contributed $35,984,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed $22,588,000, through their average required contribution of $525 per month for retiree-only coverage and $1,545 for retiree-family coverage. The plan is administered by the MSRS.

Annual OPEB Cost and Net OPEB Obligation

The State's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 4.10 percent discount rate. For year ending June 30, 2016, the State's ARC is $74,289,000. The following table shows the components of the State's annual OPEB cost, the amount contributed to the plan, and the changes to the State's net OPEB obligation:

Net OPEB Obligation
($'s In Thousands)

Annual Required Contributions (ARC)[1]	$ 74,289
Interest on Net OPEB Obligation (NOO) [1]	12,173
Amortization Adjustment to ARC[1]	(10,821)
Annual OPEB Cost (Expense)	$ 75,641
Contributions	(35,984)
Increase in NOO	$ 39,657
NOO, Beginning Balance	$296,900
NOO, Ending[2]	$336,557

[1]Components of annual OPEB cost.
[2]Amount attributable to State's Governmental Funds, which includes the General Fund is $292,616. See page F-103 through F-106, Note 9 – Termination and Postemployment Benefits and page F-110 through F-123, Note 12 – Long-Term Liabilities – Primary Government.

Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal year Ended June 30, 2016.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2016, 2015, and 2014 are as follows:

Net OPEB Obligation
($'s In Thousands)

Fiscal Year Ended, June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$75,641	48%	$336,557
2015	$72,065	45%	$296,900
2014	$70,803	50%	$256,979

Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016.

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits and the UAAL was $666,638,000. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was $3,243,316,000 and the ratio of the UAAL to the covered payroll was 20.6 percent. The next actuarial valuation will reflect July 1, 2016 numbers and will be published in the FY 2017 CAFR.

New Accounting Standards Issued

In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The State plans to implement this new standard in Fiscal Year 2018.

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APPENDIX C

STATE DEBT

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APPENDIX C

STATE DEBT

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GENERAL OBLIGATION BONDS OUTSTANDING
AS OF THE DATE OF ISSUE OF THE BONDS
($'s in Thousands)

Category	Type	Principal Amount		
1	Transportation	$ 197,166		
	Refunding Bonds	1,510,410		
	Various Purpose	2,306,005		
	Total Category 1		$	4,013,581
2	School Loan	$ 165		
	Rural Farm Authority	20,359		
	Total Category 2		$	20,524
3	Trunk Highway	$ 1,626,885		
	Trunk Highway Refunding	226,480		
	Total Category 3		$	1,853,365
	Total Outstanding as of the Date of the Bonds		$	5,887,470
	Plus Series 2017A Bonds			312,295
	Plus Series 2017B Bonds			114,000
	Plus Series 2017C Bonds			27,000
	Plus Series 2017D Bonds			323,770
	Plus Series 2017E Bonds			81,110
	Less Various Purpose Refunded Bonds			(348,870)
	Less Trunk Highway Refunded Bonds			(78,665)
	Total Outstanding as of the Date of the Bonds - Including These Issues		$	6,318,110

The full faith and credit and unlimited taxing powers of the State are pledged for the payment of all of the above bonds.

The outstanding bonds comprising the Category 1 are payable primarily from money appropriated to the Debt Service Fund from the General Fund, which is supported by income tax, sales tax, and other receipts. The bonds comprising Category 2 are payable to a substantial degree from money appropriated to the Debt Service Fund from special accounts in the General Fund to which the receipts from special revenue sources, such as school district capital and debt service loan repayments, State college charges, fees and rentals, have been pledged. The Category 3, Trunk Highway Bonds, are payable primarily from the Trunk Highway Fund, which receives 58.9 percent of the net proceeds of the State fuel, motor vehicle registration taxes, and a portion of the motor vehicle sales tax, pursuant to the State Constitution and related statutory provisions.

GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED AS OF THE DATE OF ISSUE OF THE BONDS

($'s in Thousands)

Purpose of Issue	Law Authorizing	Total Authorization (1)(2)(4)	Previously Issued as Par Bonds	Previously Issued as Premium	The Bonds (3)	Remaining Authorization
Building	1990,Ch.610	$270,126.0	$270,126.0	$0.0	$0.0	$0.0
Building	1994,Ch.643	523,849.0	523,849.0	0.0	0.0	$0.0
Building	X1997, Ch. 2	37,335.0	37,335.0	0.0	0.0	$0.0
Building	1999, Ch. 240	439,212.6	438,536.0	0.0	0.0	$676.6
Various Purpose	2000, Ch. 492	518,703.2	518,529.6	44.4	0.0	$129.2
Various Purpose	2002, Ch. 393	599,607.8	599,592.6	0.0	0.0	$15.2
Various Purpose	X2002, Ch. 1	15,055.0	14,755.0	0.0	0.0	$300.0
Trunk Highway	X2003, Ch. 19, Art.3	399,990.0	399,990.0	0.0	0.0	$0.0
Trunk Highway	X2003, Ch. 19, Art.4	105,700.0	105,700.0	0.0	0.0	$0.0
Various Purpose	X2003, Ch. 20	219,010.0	218,434.0	0.0	0.0	$576.0
Various Purpose	2005, Ch. 20	913,869.0	913,410.6	458.4	0.0	$0.0
Various Purpose	2006, Ch. 258	991,022.7	990,016.0	906.4	0.0	$100.3
Various Purpose	X2007, Ch. 2	41,320.0	40,926.0	394.0	0.0	$0.0
Trunk Highway	2008, Ch. 152	1,782,245.9	1,536,678.0	0.0	57,400.0	$188,167.9
Transportation	2008, Ch. 152	59,522.4	59,289.0	233.4	0.0	$0.0
Various Purpose	2008, Ch. 179	789,746.4	785,466.9	2,480.1	0.0	$1,799.4
Various Purpose	2008, Ch. 365	104,806.0	104,493.4	312.6	0.0	$0.0
Trunk Highway	2009, Ch. 36	39,942.0	39,942.0	0.0	0.0	$0.0
Various Purpose	2009, Ch. 93	255,463.0	248,731.8	3,063.2	2,000.0	$1,668.0
Various Purpose	2010, Ch. 189	707,588.2	693,131.1	12,207.9	0.0	$2,249.2
Trunk Highway	2010, Ch. 189	24,952.0	24,952.0	0.0	0.0	$0.0
Trunk Highway	2010, Ch. 388	99,194.9	99,194.9	0.0	0.0	$0.0
Various Purpose	X2010, Ch. 1	31,122.9	26,424.5	2,013.5	0.0	$2,684.9
Various Purpose	X2011, Ch. 12	553,821.4	510,612.3	23,337.7	3,500.0	$16,371.4
Trunk Highway	2012, Ch. 287	17,613.0	17,310.0	0.0	0.0	$303.0
Various Purpose	2012, Ch. 293	561,667.5	508,029.0	48,112.9	600.0	$4,925.6
Various Purpose	X2012, Ch. 1	52,914.5	42,796.5	6,003.4	2,000.0	$2,114.6
Trunk Highway	X2012, Ch. 1	34,064.1	32,155.0	0.0	1,200.0	$709.1
Trunk Highway	2013, Ch. 117	300,300.0	249,405.1	0.0	25,300.0	$25,594.9
Various Purpose	2013, Ch. 136	178,795.0	137,885.1	17,614.9	11,000.0	$12,295.0
Various Purpose	2014, Ch. 294	894,703.0	641,745.9	125,334.1	86,350.0	$41,273.0
Various Purpose	X2015 Ch. 5	190,697.0	91,097.1	19,472.9	45,550.0	$34,577.0
Trunk Highway	X2015 Ch. 5	140,140.0	89,698.0	0.0	30,100.0	$20,342.0
Various Purpose	2017, Ch. 4	35,035.0	0.0	0.0	30,000.0	$5,035.0
Trunk Highway	X2017, Ch. 3	940,940.0	0.0	0.0	0.0	$940,940.0
Various Purpose	X2017, Ch. 8	1,038,510.0	0.0	0.0	219,500.0	$819,010.0
Totals		$13,908,584.6	$11,010,237.5	$261,989.8	$514,500.0	$2,121,857.3

(1) Amount as shown reflects any amendments by subsequent session laws.

(2) Minnesota Statutes, Section 16A.642, requires the Commissioner to prepare and present to appropriate legislative committees on or before January 1 of each odd-numbered year, a report on the status of certain bond authorizations which are more than four years old which have been implemented to a certain degree, and of other bond authorizations or bond proceeds balances that may be cancelled due to completion or cancellation of the projects to be financed. Bond authorizations and bond proceeds balances reported on by the Commissioner are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

(3) Minnesota Statutes 16A.641, subdivision 7b, allows for the premium, received on the sale of bonds after December 1, 2012 may be deposited to the bond proceeds fund where it is used to reduce the par amount of the bonds issued at the time of the bond sale or to the state bond fund.

(4) Special Session Laws 2017, Chapter 3, Article 2, authorizes $940,940,000 in Trunk Highway Bonds however, the effective date of the article is July 1, 2017.

TOTAL STATE GENERAL OBLIGATION BONDS OUTSTANDING BY SERIES
AS OF THE DATE OF ISSUE OF THE BONDS
($'s in Thousands)

Bond Issue	Original Principal		Final Maturity after Refunding	Interest Rate Range Outstanding	Outstanding Principal 06/30/2017		Outstanding Principal as of Date of Issue	
	Various Purpose	Trunk Highway			Various Purpose	Trunk Highway	Various Purpose	Trunk Highway
Series Dated April 25, 2007 (Refunding)	264,050	-	2018	5.00%	35,995	-	8,945	-
Series Dated August 14, 2007	656,000	14,000	2017	5.00%	33,575	710	-	-
Series 2008A August 5, 2008	275,000	-	2018	5.00%	13,525	-	13,525	-
Series 2008B August 5, 2008	-	33,500	2018	4.00%	-	1,675	-	1,675
Series 2008C August 5, 2008 (Refunding)	155,415	-	2019	5.00%	47,750	-	31,785	-
Series 2009A January 29, 2009	325,000	-	2019	5.00%	48,130	-	48,130	-
Series 2009B January 29, 2009	-	70,000	2019	3.00% - 4.00%	-	39,310	-	10,645
Series 2009D August 26, 2009	192,275	-	2019	4.00% - 5.00%	28,320	-	18,880	-
Series 2009E August 26, 2009	-	80,000	2019	4.50% - 5.00%	-	52,000	-	8,000
Series 2009F August 26, 2009 (Refunding)	297,750	-	2021	4.00% - 5.00%	120,380	-	93,455	-
Series 2009G August 26, 2009 (Refunding)	-	28,360	2021	3.00% - 5.00%	-	12,370	-	9,535
Series 2009H November 5, 2009	443,000		2029	5.00%	102,555	-	102,555	-
Series 2009I November 5, 2009		25,000	2019	3.00% - 3.25%	-	14,500	-	4,500
Series 2009K November 5, 2009 (Refunding)	100,395		2022	5.00%	82,695	-	49,075	-
Series 2010A August 19, 2010	635,000		2020	4.00% - 5.00%	441,350	-	94,575	-
Series 2010B August 19, 2010		225,000	2030	5.00%	-	157,500	-	146,250
Series 2010D September 29, 2010 (Refunding)	687,115		2024	2.00% - 5.00%	326,255	-	280,950	-
Series 2010E September 29, 2010 (Refunding)		220,670	2024	3.00% - 5.00%	-	120,200	-	103,550
Series 2011A October 12, 2011	445,000		2031	3.00% - 5.00%	298,990	-	279,055	-
Series 2011B October 12, 2011		320,000	2031	4.00% - 5.00%	-	240,000	-	224,000
Series 2012A August 16, 2012	422,000		2032	2.50% - 5.00%	256,945	-	214,010	-
Series 2012B August 16, 2012		234,000	2032	2.00% - 5.00%	-	187,200	-	175,500
Series 2012C August 16, 2012 (Taxable)	2,500		2017	2.00%	2,500	-	-	-
Series 2013A August 15, 2013	273,350		2033	4.00% - 5.00%	232,340	-	218,670	-
Series 2013B August 15, 2013		200,000	2033	4.00% - 5.00%	-	170,000	-	160,000
Series 2013C August 15, 2013 (Taxable)	5,000		2018	2.50%	5,000	-	5,000	-
Series 2013D November 6, 2013	283,820		2033	3.00% - 5.00%	241,910	-	227,940	-
Series 2013E November 6, 2013		112,000	2033	4.00% - 5.00%	-	95,200	-	89,600
Series 2013F November 6, 2013 (Refunding)	373,940		2026	3.125% - 5.00%	349,880	-	311,810	-
Series 2014A August 21, 2014	429,670		2034	5.00%	387,080	-	365,785	-
Series 2014B August 21, 2014		288,000	2034	3.00% - 5.00%	-	259,200	-	244,800
Series 2014C August 21, 2014 (Taxable)	26,040		2033	1.25% - 3.75%	23,610	-	22,395	-
Series 2014D August 21, 2014 (Taxable Refunding)	28,210		2032	1.39% - 4.00%	14,605	-	13,550	-
Series 2014E August 21, 2014 (Refunding)		123,315	2026	2.00% - 4.00%	-	112,310	-	99,700
Series 2015A August 19, 2015	368,225		2035	5.00%	350,035	-	331,845	-
Series 2015B August 19, 2015		310,000	2035	2.95% - 5.00%	-	294,500	-	279,000
Series 2015C August 19, 2015 (Taxable)	7,200		2025	1.25% - 3.00%	6,480	-	5,760	-
Series 2015D August 19, 2015 (Refunding)	376,655		2027	0.05	376,655	-	376,655	-
Series 2015E August 19, 2015 (Refunding)		14,900	2027	2.00% - 5.00%	-	13,725	-	13,695
Series 2016A August 11, 2016	265,890		2036	0.05	265,890		252,820	
Series 2016B August 11, 2016		215,000	2036	2.25% - 5.00%	-	215,000		204,250
Series 2016C August 11, 2016 (Taxable)	7,500		2021	0.014	7,500		7,500	
Series 2016D August 11, 2016 (Refunding)	310,565		2029	2.25-5.00%	310,565		310,565	
Series 2017A October 11, 2017	312,295		2037	0.05	-	-	312,295	
Series 2017B October 11, 2017		114,000	2037	2.25% - 5.00%	-	-		114,000
Series 2017C October 11, 2017 (Taxable)	27,000		2022	0.0202	-	-	27,000	
Series 2017D October 11, 2017 (Refunding)	323,770		2030	3.00% - 5.00%	-	-	323,770	
Series 2017E October 11, 2017 (Refunding)	-	81,110	2029	3.00% - 5.00%	-	-	-	81,110
Totals for Date:	**$ 8,319,630**	**$ 2,708,855**			**$ 4,410,515**	**$ 1,985,400**	**$ 4,348,300**	**$ 1,969,810**

The following table shows all debt service payments for outstanding general obligation bonds as of the date of this Official Statement.

DEBT SERVICE PAYMENTS ON GENERAL OBLIGATION BONDS OUTSTANDING AS OF THE DATE OF ISSUE OF THE BONDS[(1)(2)]

($'s in Thousands)

Fiscal	General Fund			Trunk Highway Fund		
Year	Principal	Interest	Total	Principal	Interest	Total
2018	69,665	100,396	170,061	6,905	39,397	46,302
2019	401,315	178,174	579,489	138,420	73,492	211,912
2020	388,480	158,987	547,467	137,510	67,266	204,776
2021	354,500	140,705	495,205	136,665	61,030	197,695
2022	349,585	123,332	472,917	134,820	54,847	189,667
2023	314,545	106,947	421,492	131,715	48,671	180,386
2024	294,370	91,794	386,164	130,875	42,730	173,605
2025	280,565	77,748	358,313	123,510	37,196	160,706
2026	255,870	65,265	321,135	115,945	32,062	148,007
2027	229,005	54,187	283,192	107,710	27,400	135,110
2028	218,090	43,639	261,729	104,705	23,201	127,906
2029	180,830	34,715	215,545	103,385	19,294	122,679
2030	164,620	27,610	192,230	100,200	15,552	115,752
2031	145,905	21,018	166,923	95,200	11,911	107,111
2032	114,380	15,347	129,727	83,950	8,574	92,524
2033	94,135	10,754	104,889	67,950	5,854	73,804
2034	81,385	6,749	88,134	56,250	3,567	59,817
2035	52,545	3,529	56,074	40,650	1,815	42,465
2036	31,250	1,434	32,684	26,250	746	26,996
2037	13,065	327	13,392	10,750	161	10,911
	$ 4,034,105	$ 1,262,656	$ 5,296,761	$ 1,853,365	$ 574,764	$ 2,428,129

(1) Totals do not include the Bonds.
(2) FY 2018 debt service excludes amounts paid prior to the date of issue of the Bonds.

For additional information on State general obligation bonds and other long term liabilities of the State, refer to the STATE FINANCIAL STATEMENTS in APPENDIX F.

Note 10 – Long-Term Commitments (see pages F-107 through F-108)
Note 11 – Operating Lease Agreements (see page F-109)
Note 12 – Long-Term Liabilities (see pages F-110 through F-123).

The table shows the net debt service transfer amounts for the following fiscal years.

NET AMOUNT TRANSFERRED TO DEBT SERVICE FUND FOR GENERAL OBLIGATION BONDS DEBT SERVICE[1]
($'s in thousands)

In Fiscal Year	General Fund	Trunk Highway Fund	All Other Funds [2]	Transfer Total
1999	$286,495	$5,149	$15,296	$306,940
2000	255,037	3,744	12,500	$271,281
2001	304,994	6,352	11,963	$323,309
2002	285,553	7,449	11,989	$304,991
2003	295,441	8,823	35,135	$339,399
2004	265,706	16,289	57,676	$339,671
2005	323,453	27,207	43,561	$394,221
2006	352,337	36,347	40,566	$429,250
2007	399,651	53,752	42,696	$496,099
2008	409,276	52,170	41,524	$502,970
2009	452,762	59,542	47,375	$559,679
2010	429,098	70,542	50,783	$550,423
2011	401,265	46,391	41,145	$488,801
2012	190,799	72,601	74,703	$338,103 [3]
2013	222,584	120,305	69,133	$412,022 [3]
2014	619,935	136,488	53,685	$810,108 [3]
2015	623,060	154,593	47,607	$825,260
2016	609,285	180,725	45,757	$835,767
2017	529,215	193,539	109,133	$831,887
2018 (est)	566,513	214,579	44,848	$825,940
2019 (est)	588,788	232,871	49,303	$870,962

[1]The Net Transfer amount is net of investment earnings in the Debt Service Fund and Bond Proceeds Fund and bond premiums received from new bond issuances which are also appropriated to pay debt service on State general obligation bonds.

[2]The All Other Funds category is made up of the debt service funding requirement paid by the higher education systems of the University of Minnesota, the Minnesota State Colleges and Universities, Rural Finance Authority and others.

[3]The debt service transfers for FY 2012 and FY 2013 are lower from prior fiscal years as a result of the Tobacco Securitization Bonds which were used in part to refund, in part, and prepay certain general obligation indebtedness of the State. See "Tobacco Settlement" in Appendix B of this Official Statement. The debt service for FY 2014 is higher because of increased State general obligation bond issuance and it does not include the benefit of the Tobacco Securitization Bonds.

CAPITAL INVESTMENT GUIDELINES

Minnesota Statutes, Section 16A.105 requires the Commissioner of Management and Budget to prepare a debt capacity forecast to be delivered to the Governor and Legislature in February and November of each year.

The capital investment guidelines are:

1. Total tax-supported principal outstanding shall be 3.25 percent or less of total State personal income.
2. Total amount of principal (both issued, and authorized but unissued) for State general obligations, State moral obligations, equipment capital leases, and real estate capital leases are not to exceed six percent of State personal income.
3. 40 percent of general obligation debt shall be due within five years and 70 percent within ten years, if consistent with the useful life of the financed assets and market conditions.

The capital investment guidelines are intended to:

- Be consistent with measures used by the credit rating agencies and foster direct comparisons with the debt burdens of other states;
- Be comprehensive to ensure all kinds of tax-supported debt obligations[(1)] are recognized; and
- Continue Minnesota's conservative financial management practices.

The capital investment guidelines are intended to be a current fiscal year "point in time" calculation. Total State personal income is derived from the IHS Economics data used to develop the February 2017 Forecast and reflects the State's 2017 Fiscal Year.

As of February 28, 2017, the last date of calculation, MMB was in compliance with the capital investment guidelines. The percentages as of that date were:

Guideline #1: Tax-supported principal outstanding as a percent of State personal income: 2.73 percent

Guideline #2: Total principal outstanding (issued, and authorized but unissued) as a percent of State personal income: 3.53 percent

Guideline #3: Of the State's general obligation bonds outstanding on June 30, 2016, 40.3 percent were scheduled to mature within five years and 71.2 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds outstanding on June 30, 2017, 41.3 percent were scheduled to mature within five years and 72.2 percent were scheduled to mature with ten years.

[(1)]Tax-supported debt obligations includes all of the State's general obligation bonds and the obligations summarized under "CONTINGENT LIABILITIES," in the descriptions titled "State Continuing Appropriations," "Lease Purchase Financing for Equipment," and "Lease Purchase Financing for Real Estate" in this APPENDIX C.

MARKET VALUE OF TAXABLE PROPERTY

The market value, as defined by statute, of taxable real and personal property in the State, based upon the January 2016 valuation, was estimated by the Commissioner of Revenue to be $631,776,322,000. This value is based upon certified Property Record Information System of Minnesota (PRISM) adjusted assessment submissions from local assessors and on file with the Commissioner of Revenue. The values shown represent the value of real and personal property in the State subject to ad valorem taxation.

MARKET VALUE OF TAXABLE PROPERTY
($ in Thousands)

Year of Assessment	Real Property	Personal Property	Total Market Value	Percentage Change from Prior Year
2000	$260,679,384	4,003,571	264,682,955	9.68%
2001	288,122,488	4,114,925	292,237,413	10.41
2002	320,941,481	4,263,859	325,205,340	11.28
2003	359,163,493	4,524,447	363,687,940	11.83
2004	407,146,983	4,713,782	411,860,765	13.25
2005	459,506,046	4,807,666	464,313,712	12.74
2006	513,771,733	4,965,234	518,736,967	11.72
2007	556,559,833	5,051,289	561,611,123	8.27
2008	576,128,196	5,258,865	581,387,062	3.52
2009	577,697,830	5,510,840	583,208,669	0.31
2010	554,221,643	6,162,283	560,383,926	(3.91)
2011	515,531,688	6,815,342	522,347,030	(6.79)
2012	509,008,895	7,294,854	516,303,749	(1.16)
2013	538,667,874	7,639,228	546,307,102	5.81
2014	584,994,974	8,223,550	593,218,524	8.59
2015	602,497,413	9,131,285	611,628,698	3.10
2016	621,801,802	9,974,520	631,776,322	3.29

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CONTINGENT LIABILITIES

State Continuing Appropriations

Below is a description of continuing appropriations from the General Fund. Pursuant to Minnesota law, each of these continuing appropriations may be reduced or repealed entirely by a majority vote of the Legislature and is subject to unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152.

Minnesota Department of Management and Budget. The 2009 Legislature authorized, in Minnesota Statutes, Section 16A.81, the issuance of State Certificates of Participation ("COPs"). These COPs were issued to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system; (ii) the acquisition, development and implementation of an integrated tax software project; and (iii) the payment of all fees and expenses incurred in connection to the issuance of the COPs. In December, 2012 MMB prepaid $11,495,000 from reverted proceeds that reduced the COP's outstanding balance. As of the date of this Official Statement, there are $16,675,000 of the COPs outstanding.

The 2011 Legislature authorized, in Minnesota Statutes, Section 16A.99, the issuance of State appropriation refunding bonds. MMB issued $622,290,000 aggregate principal amount State General Fund Appropriation Refunding Bonds, Taxable Series 2012A and Tax-Exempt Series 2012B (the "State Appropriation Refunding Bonds"). Net proceeds of the State Appropriation Refunding Bonds were applied to the prepayment and refunding of tobacco securitization bonds, originally issued in 2011. As of the date of this Official Statement, there is $524,625,000 of State Appropriation Refunding Bonds outstanding.

The 2012 Legislature authorized, in Minnesota Statutes, Section 16A.965, the issuance of State Appropriation Bonds. MMB issued $462,065,000 aggregate principal amount State General Fund Appropriation Bonds, Tax-Exempt Series 2014A and Taxable Series 2014B (the "State Appropriation Bonds"), all of which are currently outstanding. Net proceeds of the State Appropriation Bonds were applied to the financing of a portion of the costs of acquisition, construction, improving and equipping of the professional football stadium project of the Minnesota Sports Facility Authority as provided by Minnesota Statutes, Section 473J. As of the date of this Official Statement, $436,630,000 of the State Appropriation Bonds remains outstanding. The project is in downtown Minneapolis and was completed for the 2016 National Football League season.

The 2013 Legislature authorized the Commissioner of Administration to enter into a long-term lease purchase agreement for the Legislative Office Facility that will provide office and hearing room space as well as parking for the Legislature. The same legislation also authorized the Commissioner of Management and Budget to issue lease revenue bonds or certificates of participation to finance the pre-design, design, and construction and equipping of the building and parking facilities. Certificates of Participation were issued in August 2014 in the amount of $80,100,000 for this project and as of the date of this Official Statement, $76,445,000 remain outstanding. The lease purchase agreement must not be terminated, except for non-appropriation in respect of lease rental payments. The 2017 Legislature appropriated funds sufficient to pay the lease rental payments of the project through the end of the Current Biennium. Subsequent to this, the Governor line item vetoed this amount. For a discussion concerning the status of the appropriations for lease rental payments for the Current Biennium see "LINE ITEM VETOES AND POSSIBLE SPECIAL LEGISLATIVE SESSION" section of this Official Statement.

Pursuant to the Minnesota Statutes, Section 16A.967, the Commissioner of Management and Budget may sell State Appropriation Bonds to finance the land acquisition, design, engineering, easement acquisition and construction of facilities and infrastructure necessary to complete the Lewis and Clark Regional Water System project, including completion of a water transmission pipeline in southwest Minnesota and related facilities to fund up to $22.5 million in project costs. In November 2016, the State issued $11,790,000 in State Appropriation Bonds, which as of the date of this Official Statement, $10,620,000 remains outstanding. The State anticipates an additional bond sale to occur during the fall of 2017. See "Future Financings" in this Official Statement.

University of Minnesota. The Legislature has approved State financial assistance for a 50,000-seat, on-campus football stadium for the University of Minnesota (the "U of M"). In 2006, the Legislature appropriated from the General Fund $10,250,000 in each of not more than 25 years, beginning in 2008, to the U of M for the payment of special purpose revenue bonds issued by the U of M to finance a portion of the stadium. The U of M issued $137,250,000 Special Purpose Revenue Bonds (State Supported Stadium Debt), Series 2006 ("Series 2006 Stadium Bonds") for the stadium in December 2006. Transfers from the General Fund to the U of M are conditioned upon

satisfaction of certain requirements by the U of M. Pursuant to Minnesota Statutes, Section 137.54, in August 2015, U of M issued the Series 2015A Special Purpose Revenue Refunding Bonds to refund the outstanding Series 2006 Stadium Bonds. In addition, per the legislation, the Board of Regents allocated sufficient funds from the savings realized from the refunding to provide $10,000,000 to finance the predesign and design of improved health education and clinical research facilities for the Medical School and the Academic Health Center. As of the date of this Official Statement, $80,745,000 of the U of M State Appropriation Bonds remains outstanding.

The Minnesota Legislature has approved State financial assistance for up to four Biomedical Science Research Facilities for the U of M. In 2008, the Legislature appropriated from the General Fund amounts ranging from $850,000 to $15,550,000 in each year beginning in 2010, for up to 25 years after certification of the last facility for the payment of revenue bonds issued by the U of M to finance the facilities. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M. The U of M issued State secured appropriation bonds for the Biomedical Science Research Facilities in the amount of $111,400,000 in September 2010, $52,485,000 in bonds in October 2011, and $35,395,000 in November 2013. As of the date of this Official Statement, $171,655,000 of the State secured appropriation bonds are still outstanding.

Minnesota Housing Finance Agency ("MHFA"). The Minnesota Legislature created a program to finance the construction, acquisition, preservation, and rehabilitation of permanent supportive housing for individuals and families who are homeless or at risk of homelessness and of foreclosure or vacant housing to be used for affordable rental housing. In 2008, the Legislature appropriated from the General Fund up to $2.4 million per year in each of 20 years, beginning in 2009, to MHFA for the payment of nonprofit housing bonds issued by MHFA for the program. MHFA issued $13,270,000 in bonds to finance this program in 2009 and an additional $21,750,000 in 2011. As of the date of this Official Statement, there is $24,720,000 of the MHFA nonprofit housing bonds outstanding.

In 2012, the Legislature authorized MHFA to issue up to $30,000,000 of housing infrastructure bonds and appropriated from the General Fund up to $2.2 million per year beginning in Fiscal Year 2014 through Fiscal Year 2036 to MHFA for the payment of these bonds. MHFA issued $15,460,000 of the $30 million in bonds as authorized in this legislation in 2013 and an additional $14,540,000 in 2014. As of the date of this Official Statement, there is $25,480,000 of these MHFA housing infrastructure bonds outstanding.

In 2014, the Legislature authorized MHFA to issue an additional $80,000,000 of housing infrastructure bonds, which the 2017 Legislature increased to $95,000,000, and appropriated from the General Fund up to $6.4 million per year beginning in Fiscal Year 2016 through Fiscal Year 2038 to MHFA for the payment of these bonds. MHFA issued $37,570,000 of housing infrastructure bonds in February 2015, issued an additional $31,095,000 in September 2015 and issued $11,335,000 in September of 2016. As of the date of this Official Statement, there is $ 70,980,000 of these MHFA housing infrastructure bonds outstanding. MHFA anticipates an additional bond sale to occur later this fall under this authorization. See "Future Financings" in this Official Statement.

In 2015, the Legislature authorized MHFA to issue an additional $10,000,000 of housing infrastructure bonds, which the 2017 Legislature increased to $15,000,000 and appropriated from the General Fund up to $800,000 per year beginning in Fiscal Year 2018 through Fiscal Year 2039 to MHFA for the payment of these bonds. MHFA issued $7,290,000 of these housing infrastructure bonds in September 2016, of which $7,035,000 is outstanding s of the date of this Official Statement.

In 2017, the Legislature authorized MHFA to issue an additional $35,000,000 of housing infrastructure bonds and appropriated from the General Fund up to $2.8 million per year beginning in Fiscal Year 2019 through Fiscal Year 2040 to MHFA for the payment of these bonds. MHFA has not yet issued any of these housing infrastructure bonds.

Lease Purchase Financing For Equipment

The Commissioner of Management and Budget is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner of Management and Budget has entered into master lease agreements providing for equipment financing and expects to continue this practice. As of date of this Official Statement, $28,089,388 of principal is outstanding and unpaid under the master lease program. The master leases and the State's obligation to make rental payments thereunder are not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments thereunder only to the extent moneys are appropriated from time to time for this purpose.

The Minnesota Department of Commerce is authorized by Minnesota Statutes, Section 16C.144 to establish the Guaranteed Energy Savings Program ("GESP") that utilizes Energy Performance Contracts. The projects, the implementation of energy efficient and renewable energy measures in public facilities by State government agencies, including Minnesota State, will be financed through lease purchase agreements. Payments for the lease purchase will be made through the energy and operational savings achieved by the projects. As of date of this Official Statement, $9,966,454 of principal is outstanding and unpaid under the GESP program.

Lease Purchase Financing For Real Estate

On March 1, 2000, the City of Bemidji and the State entered into a Lease and Purchase Option Agreement. Under the Lease and Purchase Option Agreement, the City of Bemidji issued $8,275,000 of bonds to finance the design of and to construct, equip, and furnish a satellite laboratory in the City of Bemidji for use by the Minnesota Bureau of Criminal Apprehension. In September 2008, the city of Bemidji issued refunding bonds for this project and in October 2016, the city of Bemidji completed a current refunding in the amount of $2,910,000 to defease the 2008 bonds. As of the date of this Official Statement, $2,910,000 of the bonds remain outstanding. Rental payments paid by the State will be used to pay debt service on the bonds. The savings on the debt service due to the refunding bond issue will reduce the State's annual rent payments. The State's obligation to make rent payments is not a general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments only to the extent moneys are appropriated from time to time for this purpose. The Legislature appropriated from the General Fund up to $700,000 per year in each of 20 years, beginning in 2002.

On November 1, 2002, the Port Authority of Saint Paul and the State entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the design of and to construct, equip, and furnish two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the State. The buildings are approximately 400,000 square feet and 342,000 square feet in size. The amount of bonds originally sold to finance both of the facilities was $193,105,000. In August 2008 the amount of $3,210,000 was defeased thereby reducing the State's liability. In May 2013 the balance of the original bond issues were refunded and as of the date of this Official Statement there are $86,175,000 of Port Authority Refunding Bonds outstanding. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as the Lease and Option to Purchase Agreement with the City of Bemidji described above. The Legislature appropriated an annual rental payment from the General Fund up to $13.5 million per year in each of 20 years, beginning in 2004.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner of Management and Budget, under certain circumstances and subject to the availability of funds, to issue a warrant and authorize the Commissioner of Education to pay debt service due on school district and intermediate school district certificates of indebtedness issued under Minnesota Statutes, Section 126C.52, certificates of indebtedness and capital notes for equipment, certificates of participation issued under Minnesota Statutes, Section 126C.40, subdivision 6, and school district and intermediate school district general obligation bonds, in the event that the school district or intermediate school district notifies the Commissioner of Education that it does not have sufficient money in its debt service fund for this purpose, or the paying agent informs the Commissioner of Education that it has not received from the school district timely payment of moneys to be used to pay debt service. The legislation appropriates annually from the General Fund to the Commissioner of Education the amounts needed to pay any warrants which are issued.

The amounts paid on behalf of any school district or intermediate school district are required to be repaid by it with interest, by a reduction in State aid payable to the school district or intermediate school district or the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education. Furthermore, the State is subrogated to the rights of a school district or intermediate school district in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the district in full.

Under Minnesota Statutes, Section 126C.52, school districts and intermediate school districts are authorized to issue tax and State aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem

taxes in the process of collection and 75 percent of State aids in the process of collection. As the date of this Official Statement, there are approximately $17 million of aid anticipation certificates of indebtedness enrolled in the program all of which will mature within a 14 month period. The State expects that school districts and intermediate school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

School districts and intermediate school districts may issue certificates of indebtedness or capital notes to purchase certain equipment. The certificates or notes may be issued by resolution of the board, must be payable in not more than ten years, and are payable from school district and intermediate school district taxes levied within statutory limits.

Under Minnesota Statutes, Section 126C.40, subdivision 6, certain school districts, with the approval of the Commissioner of Education, may issue certificates of participation in installment contracts for the purchase of real or personal property or in lease purchase agreements for the lease with option to purchase of real or personal property. Such certificates of participation, contracts and agreements are not general obligations of such school districts, but are payable from taxes levied annually in amounts necessary to pay the amounts due thereunder.

School districts and intermediate school districts are authorized to issue general obligation bonds only when authorized by school district and intermediate school districts electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district or intermediate school district for the years and in amounts sufficient to produce sums not less than 105 percent of the principal of and interest on the bonds when due.

As the date of this Official Statement, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2046, is approximately $12.5 billion. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is currently estimated at $1.9 billion, with the maximum amount of principal and interest payable in any one month being $760 million. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts.

Minnesota Laws 2005, Chapter 152, Article 1, Section 39, as amended by Minnesota Laws 2006, Chapter 259, Article 12, Section 15, provides that the Commissioner of Iron Range Resources and Rehabilitation Board ("IRRRB") shall issue revenue bonds payable from certain taconite production tax revenues in a total principal amount of $15,000,000, plus costs of issuance relating thereto, for the purpose of making grants to school districts located in the taconite relief area or taconite assistance area, as statutorily defined, to be used by such school districts for health, safety, and maintenance improvements. Bonds issued under this program are debt obligations subject to the school district credit enhancement program, provided that advances made by the State are not subject to the provisions of the school district credit enhancement program requiring the levy of an ad valorem tax by affected school districts in order to repay the State. Minnesota Laws 2013, Chapter 143 authorized the issuance of an additional $38,000,000 in revenue bonds for the same purpose as previously authorized. The IRRRB issued $37,830,000 of these bonds in October 2013 for this program. As of the date of this Official Statement $33,605,000 of the bonds are outstanding. Laws 2006, Chapter 259, Article 12, Section 15, Minnesota Statutes, Section 298.2211 and an Order of the IRRRB Commissioner authorized the issuance of $7,860,000 in refunding revenue bonds. The proceeds of the bonds were used to refund the remaining outstanding balance of $8,310,000 of the Educational Facilities Revenue Bonds, Series 2006. As of the date of this Official Statement, there are $5,760,000 of the refunding bonds outstanding.

City and County Credit Enhancement Program

Minnesota Statutes, Section 446A.086, establishes a city and county bond credit enhancement program. The law authorizes and directs the Commissioner of Management and Budget, under certain circumstances and subject to the availability of funds, to issue a warrant and authorizes the Minnesota Public Facilities Authority

("MPFA") to pay debt service coming due on: (a) county general obligation bonds, bonds to which the general obligation of a county has been pledged, and certain lease obligations, to provide funds for the construction of (i) jails, (ii) correctional facilities, (iii) law enforcement facilities, (iv) social services and human services facilities; (v) solid waste facilities; or (vi) qualified housing development projects; or (b) city or county general obligation bonds to provide funds for the construction, improvement, or rehabilitation of (i) wastewater facilities, (ii) drinking water facilities, (ii) storm water facilities, or (iv) any publicly owned building or infrastructure improvement that has received partial funding from grants awarded by the Commissioner of Employment and Economic Development related to redevelopment, contaminated site cleanup, bioscience, small cities development programs, and rural business infrastructure programs, for which bonds are issued by the MPFA under Minnesota Statutes, Section 446A.087. See "*Minnesota Public Facilities Authority ("MPFA")*" in this APPENDIX C for more information on MPFA bonds that may be credit enhanced under this program.

To be eligible for the program, a city or county must have entered into an agreement with the MPFA, which requires notifications to the MPFA by the city or county and paying agent when funds are not sufficient to timely pay all or a portion of debt service on obligations issued under the program. The MPFA must notify the Commissioner of Management and Budget of potential defaults, and the Commissioner of Management and Budget then must issue a warrant and authorize the MPFA to pay to the bondholders or paying agent the amount necessary to pay in full debt service on credit-enhanced bonds when due. The law appropriates annually from the General Fund to the MPFA the amounts needed to pay any warrants issued by the Commissioner of Management and Budget for this purpose. The amount of debt outstanding under this program may not exceed $1,000,000,000.

The amounts paid on behalf of any city or county are required to be repaid to the State with interest, either through a reduction of subsequent State-aid payments or by the levy of an ad valorem tax, which may be made with the approval of the MPFA, or will be made mandatory by the MPFA if the State is not repaid in full by November 30 of the following calendar year. Furthermore, the State is subrogated to the rights of a city or county in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the city or county in full.

As of the date of this Official Statement, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2045, is approximately $643 million. More bonds are expected to be enrolled in the program and these amounts are expected to increase. Based upon the bonds enrolled in the program, during Fiscal Year 2018 the total amount of principal and interest outstanding as of the date of this Official Statement is $51 million with the maximum amount of principal and interest payable in any one month currently estimated at $32 million.

On August 1, 2013, the State made a $603,000 debt service payment under the program on behalf of the City of Williams with respect to the $600,000 City of Williams, Minnesota General Obligation Grant Anticipation Notes, Series 2010. The City of Williams is contractually obligated to repay the State, with interest, for the $603,000 debt service payment. The current unpaid balance is $61,423. The City of Williams and MPFA have entered into a Credit Enhancement Program Loan Agreement and the City of Williams is scheduled to make its final loan payment in December 2019. The State does not expect to make any other debt service payments on behalf of cities or counties under the program in the future. If such payments are made, the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the cities or counties.

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OBLIGATIONS OF STATE AGENCIES

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them and outstanding as of the date of this Official Statement is set forth below.

Minnesota Housing Finance Agency ("MHFA"). The MHFA was established in 1971, and is governed by Chapter 462A of the Minnesota Statutes. Its enabling legislation authorizes the MHFA to issue bonds and notes for any of its authorized purposes but the aggregate principal amount outstanding at any time (excluding the principal amount of any refunded bonds or notes) is limited to $5.0 billion. The proceeds of MHFA bonds and notes may be used to fund an assortment of programs designed to provide housing for low and moderate income residents of the State of Minnesota, which includes the making and purchase of loans for the acquisition, construction and rehabilitation of single and multi- family housing.

The MHFA's notes and bonds may be general or limited obligations of the MHFA but are not a debt or liability of the State. Under Chapter 462A, the MHFA must annually determine and certify to the Governor, and the Governor must include in the State budget submitted to the Legislature, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds so secured to its debt service reserve requirement and any anticipated deficiency in the debt service reserve fund in the following fiscal year. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized, but is not legally obligated, to appropriate the amount included in the Governor's proposed budget for the debt service reserve funds. The MHFA has never needed to certify a deficiency to the Governor.

MINNESOTA HOUSING FINANCE AGENCY
Debt Outstanding as of the date of issue of the Bonds
($'s in Thousands)

	Number of Series	Final Maturity	Original Principal Amount	Outstanding Principal Amount
Rental Housing.....	9	2049	$ 45,565	$ 39,250
Residential Housing Finance.....	38	2048	1,628,860	1,049,745
Multifamily Housing.....	1	2051	15,000	13,880
	48		$1,689,425	$1,102,875

The MHFA has also issued and there were outstanding as of the date of this Official Statement: six series of its conduit multifamily revenue bonds outstanding in the aggregate principal amount of $81,183,107, thirty eight series of its Homeownership Finance Bonds outstanding in the aggregate principal amount of $1,127,919,916, and three series of its Home Ownership Mortgage-backed Exempt Securities in the aggregate principal amount of $20,387,505, and Drawdown Index Bonds, in two subseries, in a cumulative aggregate principal amount not to exceed $300,000,000. These bonds (as well as the nonprofit housing bonds and housing infrastructure bonds described under "State Continuing Appropriations – Minnesota Housing Finance Agency") are subject to the MHFA's $5 billion debt limit, and the Homeownership Finance Bonds are also general obligations of the MHFA, but none of these bonds are secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above.

University of Minnesota. Regents of the University of Minnesota (the "University") was established by Territorial Laws 1851, Chapter 3, adopted by the legislative assembly of the Territory of Minnesota. Pursuant to authorization by Congress on February 26, 1857, the voters of the State approved and adopted a State constitution on October 13, 1857. The State was admitted to the union by act of Congress passed on May 11, 1858.

The State Constitution confirmed and fixed the existence of the University as a separate institution of the State, having all rights, immunities, franchises and endowments previously granted or confirmed, and all lands and donations thereafter given to it. The University is governed by a board of twelve regents who are elected by the Legislature, and is dependent upon appropriations by the Legislature to pay much of its instructional costs. The regents are a body corporate with the right to sue and be sued and to make contracts.

Pursuant to this authority the University has sold and issued bonds, in addition to the special purpose revenue bonds previously mentioned, to finance the construction of buildings and structures, remodeling projects, and purchases of land and buildings needed by the University. The par amount of such bonds outstanding as of the date of this Official Statement is approximately $1,136,875,000. The bonds are payable solely from and secured by revenues to be derived from specified facilities and the general funds of the University, and by the full faith and credit of the University. See "CONTINGENT LIABILITIES - State Continuing Appropriation" for additional information concerning other debt issued by the University of Minnesota.

Minnesota Office of Higher Education ("MOHE"). The MOHE was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88 (the "MOHE Act"). The 2005 Legislature named MOHE as successor for all of the bonds of the Minnesota Higher Education Services Office and the Minnesota Higher Education Coordinating Board. The law authorizes the MOHE to issue revenue bonds and notes to finance loans for students attending eligible post-secondary educational institutions. The amount of such bonds outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed $850,000,000. As amended in 2009 and 2011, Section 136A.1787 of the MOHE Act provides that MOHE must annually determine and certify to the Governor, and the Governor shall include in the State budget submitted to the Legislature, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds so secured to its debt service reserve requirement and any anticipated deficiency in the debt service reserve fund in the following fiscal year. If MOHE determines that there is an anticipated deficiency in the debt service reserve fund in the current fiscal year, the Governor shall include and submit the amounts certified in a Governor's supplemental budget if the regular budget for that year has previously been enacted. The Legislature is not legally obligated to appropriate the amount included in the Governor's proposed budget for the debt service reserve funds. As of the date of this Official Statement, MOHE has $467,970,000of bonds outstanding payable from the Student Educational Loan Fund, of which $467,970,000 are secured by a debt service reserve fund subject to replenishment from legislative appropriation as described above. MOHE has never certified a deficiency to the Governor. Bonds issued by MOHE are limited obligations of MOHE and are not a debt or liability of the State, but are payable solely from loan repayments, external forms of credit enhancement, loan and investment earnings, other money of the MOHE (including debt service reserve fund amounts), and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities ("Minnesota State"). Minnesota State was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes Minnesota State to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the State universities and colleges within the Minnesota State Colleges and Universities System. As of the date of this Official Statement, Minnesota State has $229,840,000 tax exempt bonds and $51,400,000 taxable bonds outstanding that are payable solely from and secured by an irrevocable pledge of revenues to be derived from the operation of the buildings financed from the Revenue Fund and from fees imposed upon students, student facilities or other sources all of which are received in the Revenue Fund. In addition to bonds, the Revenue Fund issues guaranties of debt (other than revenue bonds) incurred to finance Revenue Fund facilities. Two guarantees have been issued to date with outstanding balances of $2,630,965 and the other for $5,905,000. The guarantees are on a parity to right of payment with the revenue bonds.

Minnesota Higher Education Facilities Authority ("MHEFA"). MHEFA was established by Minnesota Statutes, Section 136A.25 to 136A.42, passed in 1971. The law, as amended, authorizes MHEFA to issue revenue bonds to finance the acquisition, construction, improvement and remodeling of college buildings and structures to be used solely for or to facilitate nonsectarian educational purposes, and to refinance facilities of this type. The amount of such bonds outstanding at any time may not exceed $1,300,000,000. As of the date of this Official Statement, MHEFA has $932,222,593 principal amount of bonds outstanding, primarily for the benefit of private colleges in the State. The bonds are not the general obligation or indebtedness of MHEFA or the State and the loan repayment obligation and security for each issue is the responsibility of the institution for which the project is financed.

Minnesota State Armory Building Commission ("MSABC"). MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at any time may not exceed $15,000,000. As of the date of this Official Statement, MSABC has $1,265,000 principal amount of bonds outstanding. MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State's use.

Minnesota Rural Finance Authority ("RFA"). In 1986 the Legislature created the Minnesota Rural Finance Authority and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA's authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA's authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of the date of this Official Statement, the RFA has no revenue bonds outstanding for these programs.

The Commissioner of Management and Budget is authorized to issue up to $271.6 million in State general obligation bonds to finance certain programs of the RFA and has issued, including bonds from this sale, $266.6 million of these bonds for this purpose.

The 1991 Legislature also authorized the RFA to establish an aggie bond beginning farmer program and an agricultural business enterprise loan program, and authorized the RFA to issue revenue bonds for these programs. As of the date of this Official Statement, the RFA has issued $34,910,000 of revenue bonds for these programs.

Minnesota Public Facilities Authority ("MPFA"). The MPFA was established in 1987 and is governed by Minnesota Statutes, Chapter 446A which authorizes it to make loans to local government units. As of the date of this Official Statement, the MPFA has $114,575,000 Clean Water Revolving Fund Revenue Bonds outstanding, $773,610,000 State Revolving Fund Revenue bonds outstanding and $3,000,000 Transportation Revolving Loan Fund Revenue Bonds outstanding, for a total outstanding principal amount of $891,185,000. The MPFA's bonds are not a debt or liability of the State. The principal amount of MPFA bonds issued and outstanding at any time may not exceed $2,000,000,000, excluding bonds issued under Minnesota Statutes, Section 446A.087.

Minnesota Agricultural and Economic Development Board ("MAEDB"). The MAEDB was established by Minnesota Statutes, Chapter 41A, to provide for agricultural and economic development in the State, and is authorized to issue revenue bonds for these purposes. The revenue bonds issued by the MAEDB are not general obligations of the State. As of the date of this Official Statement, MAEDB has called all pooled revenue bonds outstanding, therefore there are no bonds outstanding that are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB has $336,018,357 of revenue bonds outstanding that were issued for the benefit of various entities and which are paid for solely from revenues received from the borrower under each specific bond issue.

Minnesota Department of Management and Budget ("MMB"). The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to $38 million of State revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the

Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of Management and Budget sold $29,000,000 of the revenue bonds in June 2000. The balance of the original bond issue, $22,900,000, was refunded in a current refunding bond issue in August 2012 and as of the date of this Official Statement; there are $13,725,000 of Minnesota State Retirement System bonds outstanding.

The 2005 Minnesota Legislature authorized, in Minnesota Statutes, Section 403.275, the issuance of up to $62.5 million of State revenue bonds. These revenue bonds were issued to finance Phase 3 of a statewide radio system that enables emergency response organizations to utilize a single, integrated, and highly structured digital radio system. The 2007 Legislature authorized an additional $186 million of revenue bonds to complete the statewide radio system. The debt service on the revenue bonds is paid solely from the revenues derived from a fee assessed to each customer of a wireless or wire-line service provider connected to the public switched telephone network that furnishes service capable of originating a 911 emergency telephone call. The Commissioner of Management and Budget sold $35,000,000 of the revenue bonds in November 2006, an additional $42,205,000 of revenue bonds in November 2008, an additional $60,510,000 of revenue bonds in October 2009 and an additional $60,360,000 in revenue bonds in September 2011. In November 2016, MMB issued $91,715,000 of 911 Revenue Refunding Bonds to defease, together with funds on hand, the November 2006 bonds and refund, on an advance refunding basis, the November 2008, October 2009 and September 2011 bonds. As of the date of this Official Statement, there are $71,395,000 of the 911 Revenue Refunding Bonds outstanding.

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APPENDIX D

PROJECT DESCRIPTION AND SCHEDULE OF BONDS BEING REFUNDED

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PROJECT DESCRIPTION

Set forth below are the titles or names of the projects or types of projects eligible to be financed in whole or in part from the proceeds of the Bonds, and the total amount appropriated by the State Legislature for this purpose. In the Order authorizing the issuance of the Bonds the Commissioner has reserved the right for a specified period to reassign Bonds issued to legislative authorizations and purposes other than those listed in the section hereof entitled "General Obligation Bonds Authorized, Issued and Unissued" and on page C-2 of APPENDIX C.

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
2008, Chapter 152				
	Transportation	Statewide	State Road Construction	1,717,694
	Finance	Statewide	Bond Sale Expense - Trunk Highway	1,800
2009, Chapter 93				
	DNR	Statewide	Flood Hazard Mitigation Grants	53,800
	MnDOT	Statewide	Local Bridge Replacement & Rehabilitation	10,000
	MnDOT	Statewide	MN Valley Railroad Track Rehabilitation	4,000
	MnDOT	Statewide	Intercity Passenger Rail Projects	26,000
	MnDOT	Systemwide	Port Development Assistance	3,000
	MnDOT	Alexandria	Aircraft Surveillance Facility	2,000
	MnDOT	Big Fork	Airport Runway	1,700
	MnDOT	Duluth	Airport Terminal	4,900
	Vets Affair	Systemwide	Asset Preservation	1,000
	Vets Affair	Systemwide	Veterans Cemeteries	1,500
Special Session 2011, Chapter 12				
	Minnesota State	Hennepin TC	Learning Res. & Student Serv. Ren.	10,566
	DNR	Statewide	Asset Preservation	17,000
	DNR	Statewide	Flood Hazard Mitigation	50,000
	DNR	Statewide	Roads and Bridges	4,800
	DNR	Lake Vermilion	Park Development	8,000
	DNR	Statewide	Ground Water Monitoring and Observation Wells	600
	DNR	Coon Rapids	Dam Renovation	16,000
	DNR	Statewide	State Trail Acquisition and Development	5,800
	BWSR	Statewide	RIM Conservation Reserve	20,000
	BWSR	Willmar	Easement Acquisition, Water Control, Wetland	1,614
	Administration	Statewide	CAPRA	2,830
	Administration	Statewide	Asset Preservation	4,150
	Administration	Capitol Complex	Asset Preservation	4,000
	OET	Systemwide	Renovate Three Data Centers	5,659
	Mil. Affairs	Systemwide	Asset Preservation	3,775
	Mil. Affairs	Camp Ripley	State Education Complex Addition Design	1,830
	MnDOT	Statewide	Railroad Grade Warning Devices Replace.	3,000
	MnDOT	St. Louis Park	Rail Service - Noise Abatement	700
	Metro Council	Systemwide	Transit Capital Improve Program	20,000
	Metro Council	Systemwide	Regional Parks and Trails	5,000
	DHS	Systemwide	Asset Preservation	4,700

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	DHS	Systemwide	Early Childhood Learning Facilities	1,900
	DHS	St. Peter	MSOP - Shantz Bldg Renovation	7,000
	DHS	Systemwide	Remembering with Dignity	300
	Vets Affairs	Systemwide	Asset Preservation	2,300
	Corrections	Systemwide	Asset Preservation	19,000
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Program	4,000
	DEED	Statewide	Innovative Business Dev.Grant Program	5,000
	DEED	Bloomington	Lindau Lane Corridor	15,450
	DEED	Hennepin County	African American History Museum	1,000
2012, Chapter 293				
	U of M	Systemwide	HEAPR	50,000
	U of M	Itasca	Facility Improvements	4,060
	Minnesota State	Systemwide	HEAPR	20,000
	Minnesota State	SWSU-Marshall	Science Lab Renovation/Addition Design	500
	Minnesota State	Systemwide	Engineering & Math Lab Initiatives	2,500
	Perpich Ctr Arts	Golden Valley	Road Repair	99
	DNR	Statewide	Flood Hazard Mitigation	30,000
	DNR	Statewide	Dam Repair, Reconstruction and Removal	3,000
	DNR	Statewide	Roads and Bridges	2,000
	DNR	Statewide	Forest Land Reforestation	2,500
	DNR	Statewide	Parks and Trails Renewal and Development	4,000
	DNR	Lake Vermilion	State Park Development	2,000
	DNR	Lake Zumbro	Sedimentation Dredging	3,000
	PCA	Statewide	Closed Landfill Cleanup Program	2,000
	BWSR	Statewide	RIM Conservation Reserve	6,000
	BWSR	Statewide	Wetland Restoration -Public Road Projects	6,000
	Agriculture	St. Paul	Emergency Power Supply for MDA/MDH Labs	706
	Administration	Capitol Complex	Asset Preservation	500
	Administration	Statewide	CAPRA - Asset Preservation	1,000
	Administration	Capitol Complex	Peace Officers' Memorial Renovation	55
	Mil. Affairs	Systemwide	Asset Preservation	4,000
	Mil. Affairs	Camp Ripley	State Education Complex Addition	19,500
	MnDOT	Statewide	Local Bridge Replacement/Rehab	30,000
	MnDOT	Statewide	Local Road Improvement Fund Grants	10,000
	MnDOT	Statewide	Greater Minnesota Transit Assistance	6,400
	MnDOT	Statewide	Railroad Warning Devices Replacement	2,000
	MnDOT	Statewide	Port Development Assistance	1,000
	Metro Council	Systemwide	Metropolitan Regional Parks	4,586

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Metro Council	Systemwide	Municipal Wastewater Systems Inflow & Infiltration Abatement Grants	4,000
	Metro Council	Minneapolis	Phillips Community Center Pool	1,750
	DHS	Systemwide	Asset Preservation	2,000
	Vets Affairs	Systemwide	Asset Preservation	3,000
	Vets Affairs	Minneapolis	Veterans Home Centralized Pharmacy Bldg 13	1,366
	Corrections	Systemwide	Asset Preservation	5,000
	Corrections	Stillwater	Well and Water Treatment Facility	3,391
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Prog.	6,000
	DEED	Statewide	Redevelopment Account Grants	3,000
	DEED	Statewide	Business Development Capital Project Grant Program	47,500
	DEED	Austin	Research and Technology Center	13,500
	Historical Soc.	Statewide	County and Local Preservation Grants	750
Special Session 2012, Chapter 1				
	DNR	Systemwide	Facility and DNR Damage	6,855
	DNR	Systemwide	Flood Hazard Mitigation Grants	9,000
	BWSR	Statewide	RIM Conservation Easements	1,500
	Transportation	Systemwide	Trunk Highways and Bridges	35,000
2013, Chapter 117				
	MnDOT	Systemwide	Trunk Highway Project	300,000
	MMB	Statewide	Bond Sale Expenses	300
2013, Chapter 136				
	DNR	Statewide	Flood Hazard Mitigation	20,000
	Administration	Capitol Complex	Capitol Renovation & Restoration	109,000
	Administration	Capitol Complex	Parking Facility	22,680
	Vets Affairs	Minneapolis	Veterans Home Bldg 17 and Surrounding Area	18,935
	MMB	Statewide	Bond Sale Expenses	180
2014, Chapter 294				
	U of M	Systemwide	HEAPR	42,500
	U of M	Twin Cities	Tate Science and Teaching Renovation	56,700
	U of M	Crookston	Campus Wellness Center	10,000
	U of M	Systemwide	Research Laboratory Improvement Fund	8,667
	U of M	Duluth	Chemical Sciences & Advanced Materials Bldg.	1,500
	Minnesota State	Systemwide	HEAPR	42,500
	Minnesota State	Metro State	Science Education Center	35,865
	Minnesota State	Bemidji	Business Bldg Ren and Demo	13,790
	Minnesota State	Duluth	Lake Superior College Allied Health	5,266
	Minnesota State	Minneapolis	C&TC Workforce Program	3,600
	Minnesota State	St. Paul	College Initiatives	1,500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Minnesota State	Winona	College-SE Tech Initiatives	1,700
	Minnesota State	Staples	Campus Rightsizing	4,234
	Minnesota State	Mankato	Clinical Sciences Facility	25,818
	Minnesota State	Moorhead	MSCTC - Moorhead Transportation Center	6,544
	Minnesota State	Rochester	Rochester C&TC Design, Post-Demolition	1,000
	Minnesota State	Maplewood	Century College Initiatives	2,020
	Minnesota State	Thief River Falls	C&TC - Aviation Maintenance Facility	5,864
	Minnesota State	Minneapolis	NHED - Initiatives & Demolition	3,344
	Minnesota State	Winona	Winona State - Education Village	5,902
	Minnesota State	St. Cloud	St. Cloud State Student Health & Academic Ren.	865
	Education	Red Lake	Red Lake ISD #38 Capital Loan	5,491
	Education	Statewide	Library Accessibility and Improvement Grants	2,000
	MN Academies	Faribault	New Dormitory	10,654
	MN Academies	Faribault	Asset Preservation	700
	Ctr for Arts	Golden Valley	Asset Preservation	2,000
	DNR	Systemwide	Asset Preservation	10,000
	DNR	Systemwide	Buildings and Facilities Development	2,000
	DNR	Systemwide	Flood Hazard Mitigation	4,500
	DNR	Systemwide	Dam Repair / Reconstruction / Removal	6,500
	DNR	Systemwide	Reforestation and Stand Improvement	2,963
	DNR	Systemwide	Vermilion State Park Development	14,000
	DNR	Systemwide	Fish Hatchery Improvements	2,000
	DNR	Systemwide	State Parks and Trails Acquisition and Devel.	17,667
	DNR	St. Paul	Fort Snelling Upper Post Paths	500
	DNR	E. Grand Forks	Red River Recreation Area	250
	DNR	Grant County	Elbow Lake to Pomme de Terre Lake	100
	DNR	Olmsted Cty	Lake Zumbro Reclamation	500
	DNR	Sartell	Central Minnesota Regional Parks	500
	PCA	Statewide	Capital Assist Program	2,625
	BWSR	Statewide	Reinvest in Minnesota Reserve Program	6,000
	BWSR	Statewide	Local Roads Wetlands Replacement Program	2,000
	Agriculture	St. Paul	Agricultural Lab Sample Storage Room	203
	MN Zoo	Apple Valley	Heart of the Zoo II	5,000
	MN Zoo	Apple Valley	Asset Preservation	7,000
	Administration	St. Paul	Capitol Restoration Continue	126,300
	Administration	St. Paul	Hmong Veterans Memorial	450

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Administration	St. Paul	Workers Memorial	250
	Amateur Sports	Marshall	Southwest Reg. Sports Center	4,298
	Amateur Sports	Blaine	National Sports Ctr. Tournament Fields	3,200
	Public Safety	Cottage Grove	Public Safety Training Center	1,460
	Public Safety	Maplewood	Public Safety Training Center	1,650
	Public Safety	Montgomery	Public Safety Facility	220
	Public Safety	St. Louis County	Sheriff's Rescue and Storage	700
	Mil. Affairs	Systemwide	Asset Preservation	2,000
	Mil. Affairs	Brooklyn Park	Addition/Renovation	1,244
	MnDOT	Statewide	Local Bridge Replacement Program	12,257
	MnDOT	Statewide	Local Road Improvement Fund Grants	24,356
	MnDOT	Systemwide	Greater Minnesota Transit	1,500
	MnDOT	Statewide	Highway/Rail Grade Crossings	2,000
	MnDOT	Statewide	Port Development Assistance	2,000
	MnDOT	Chisholm/Hibbing	Range Regional Airport	5,000
	MnDOT	International Falls	Airline Terminal	2,200
	Metro Council	Metropolitan	Regional Parks	4,000
	Metro Council	Systemwide	Transitway Capital Improvement	15,000
	Metro Council	Systemwide	Metro Municipalities - Inflow and Infiltration	2,000
	Metro Council	Inver Grove Hgts	Heritage Village Park	2,000
	Metro Council	Fridley	Springbrook Nature Center	5,000
	Metro Council	Maplewood	Fish Creek Greenway Corridor	318
	Metro Council	Minneapolis	Park Sculpture Garden	8,500
	Metro Council	Oakdale	Mud Lake Trail and Boardwalk ADA	150
	Metro Council	St. Paul	Como Regional Park Access	5,400
	Metro Council	Hastings	Hastings Bridge Trail	1,600
	Metro Council	West St. Paul	North Urban Regional Trail Bridge	2,000
	DHS	St. Peter	Security Hospital - Design, Construct, Remodel	56,317
	DHS	St. Peter	MSOP - Remodel, Construct	7,405
	DHS	Systemwide	Asset Preservation	3,000
	DHS	Systemwide	Early Childhood Facilities	6,000
	DHS	Maplewood	Harriet Tubman Center	720
	DHS	Hennepin Cty	St. David's Center	3,750
	DHS	St. Louis County	AEOA & RMH Office Building	3,000
	DHS	St. Paul	Dorothy Day Center	6,000
	DHS	Statewide	Remembering with Dignity	195
	Vets Affairs	Systemwide	Asset Preservation	2,000
	Vets Affairs	Minneapolis	Deep Tunnel	700
	Vets Affairs	North St. Paul	Veterans Memorial	100
	Corrections	Systemwide	Asset Preservation	5,500
	Corrections	Shakopee	Perimeter Security Fence	5,381
	Corrections	Saginaw	NE Regional Corrections Center	1,000
	DEED	Statewide	Business Development Public Infrastructure	4,000
	DEED	Alexandria	Jefferson High School Redevelopment	1,400
	DEED	Chatfield	Center for the Arts	5,352
	DEED	Clara City	South Hawk Creek Business Park	748
	DEED	Cosmos	Municipal Building Project	600

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	DEED	Fosston	Second Street South	400
	DEED	Grand Rapids	ISD - Performing Arts Center	3,897
	DEED	Hanover	Crow River Bridge	78
	DEED	Lake Elmo	Water Main Extension	3,500
	DEED	Litchfield	Power Generation Predesign	250
	DEED	Minneapolis	Nicollet Mall Revitalization	21,500
	DEED	Minneapolis	Park Brd Brian Coyle Comm. Ctr	330
	DEED	Minneapolis	Minneapolis -	550
	DEED	Park Rapids	Upper Mississippi Center	2,500
	DEED	Red Wing	Red Wing River Town Renaissance	1,560
	DEED	St. Paul	Children's Museum	6,515
	DEED	St. Paul	Historic Palace Theater Renovation	5,000
	DEED	St. Paul	MN Public Media Commons	9,000
	DEED	Thief River Falls	Airport, Elim Wastewater Ponds	650
	DEED	Thief River Falls	Public Infrastructure	800
	DEED	Virginia	PUC - Expand Utilities and Trails	19,500
	PFA	Statewide	Wastewater Infrastructure Funding	18,333
	PFA	Big Lake	Sanitary Dist. - Wastewater Collection	4,500
	PFA	Koochiching Cty	Clean Water Project	8,567
	PFA	Rice Lake	East Calvary Water Main Replacement	1,168
	PFA	Truman	Storm Water Project	1,425
	MHFA	Statewide	Public Housing Rehabilitation	20,000
	Historical Soc.	Elk River	Oliver Kelley Farm Historic Site Visitor Center	10,562
	Historical Soc.	Systemwide	Historic Sites Asset Preservation	1,440
	MMB	Statewide	Bond Sale Expenses	900
Special Session 2015, Chapter 5				
	U of M	Willmar	Poultry Testing Laboratory	8,529
	U of M	St. Paul	Veterinary Isolation Facility Replacement	18,000
	Minnesota State	Minnesota West CTC	Classrooms, Power line Facility & Geothermal	3,267
	Minnesota State	Dakota County TC	Transportation and Emerging Tech Reno.	7,733
	Minnesota State	Anoka TC	Manufacturing Tech Hub & Auto Tech Lab Reno.	2,114
	Minnesota State	St. Paul College	Health & Science Alliance Center Addition	18,829
	Natural Resources	Ottertail County	Flood Hazard Mitigation	10,000
	Natural Resources	Statewide	Flood Hazard Mitigation	13,549
	PCA	Clay, McLeod & Dodge	County Capital Assistance Program	1,276
	PCA	Polk County	County Capital Assistance Program	8,000
	PCA	Statewide	Superfund Drinking Water Program	1,750
	BWSR	MN River Basin	Flood Mitigation	1,000
	Agriculture	E. Grand Forks	Potato Inspection Facility	50

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Administration	St. Paul	Capitol Restoration - Out of Scope Items	26,724
	Administration	St. Paul	Capitol Restoration - Security Items	6,200
	MnDOT	Statewide	Local Bridge Program	7,410
	MnDOT	Statewide	Local Road Program	4,290
	MnDOT	Sandstone	Local Road Program	850
	MnDOT	Willmar	Local Road Program	3,770
	MnDOT	MN Valley RRA	Bridge Rehabilitation Grant	1,000
	MnDOT	Plymouth	Vicksburg Lane Railroad Crossing Grant	4,700
	MnDOT	Koochiching Cty	Railroad Grade Crossing Grant	460
	MnDOT	Richfield	77th Street Underpass Grant	10,000
	MnDOT	Statewide	Trunk Highway Bonding	140,000
	Metro Council	Statewide	Inflow and Infiltration Grants	1,500
	Vets Affairs	Minneapolis	Veterans Home Bridge	650
	Corrections	St. Louis County	Northeast Regional Corrections Center	1,200
	DEED	Greater Minnesota	Business Development Public Infrastructure Grants	1,000
	DEED	Statewide	Transportation Economic Development Grants	2,000
	PFA	Statewide	Wastewater Infrastructure Fund	10,000
	Historical Soc.	Fort Snelling	Visitor Services and History Program Pre-design	500
	MMB	Statewide	Bond Sale Expenses	180
	MMB	Statewide	Trunk Highway Bond Sale Expenses	140
	Natural Resources	Systemwide	DNR Facility and Natural Resource Damage Repair	2,140
	Natural Resources	Statewide	Flood Hazard Mitigation Grants	2,515
	BWSR	Statewide	RIM Conservation Easements	4,700
	MnDOT	Statewide	Local Roads	800
	DEED	Steele County	Public works Building Grant	4,000
	MMB	Statewide	Bond Sale Expenses	11
2017, Chapter 4	RFA	Statewide	Rural Finance Authority Loans	35,000
	MMB	Statewide	Bond Sale Expenses	35
Special Session 2017, Chapter 8				
	Administration	St. Paul	Centennial Parking Ramp Structural Repairs	10,878
	Administration	Systemwide	Asset Preservation	5,000
	Administration	St. Paul	Monuments and Memorials Repairs	350
	Corrections	Systemwide	Asset Preservation	20,000
	Corrections	St. Cloud MCF	Phase 2 -Health Services and Loading Dock	19,000
	Corrections	Arrowhead	NERCC Vocational Programming Improvements	600
	Education	Statewide	Library Construction Grants	2,000
	Education	Olmsted County	Dyslexia Institute of MN	1,500
	DEED	South Minneapolis	Asset Preservation: Workforce Center	1,342
	DEED	Statewide	Transportation Economic Dev. Program	3,500
	DEED	Statewide	Business Dev. Public Infrastructure	12,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in Thousands)
	DEED	Statewide	Innovative Business Dev. Public Infrastructure Grant Program	1,158
	DEED	Hermantown	Arrowhead Health Regional Wellness Center	8,000
	DEED	LaSalle	Community Center	100
	DEED	Virginia	Miners Memorial Community Center Upgrade and Expansion	12,000
	DEED	Litchfield	Phase 2 Power Generation Improvements	4,000
	DEED	Chisago County	Public Safety Center - Phase II	3,000
	DEED	St. Paul	Minnesota Museum of American Art	6,000
	DEED	St. Paul, City	Science Museum of Minnesota Building Preservation	13,000
	DEED	Bertha-Hewitt	Eagle Bend High School Demolition	1,500
	DEED	Minneapolis	Norway House	5,000
	DEED	Minneapolis	Pioneers and Soldiers Cemetery Fence Restoration Project	1,029
	DEED	Mountain Iron	Enterprise Drive North	400
	DEED	Red Wing	River Town Renaissance	4,400
	DEED	Waseca	Sports Field	375
	DEED	St. James	Highway 4 and Allied projects	5,943
	Historical Soc.	St. Paul	Historic Fort Snelling Visitor Center	4,000
	Historical Soc.	Systemwide	Historic Sites Asset Preservation	2,500
	MHFA	Statewide	Public Housing Rehabilitation	10,000
	Human Services	Systemwide	MN Security Hospital Phase 2	70,255
	Human Services	Anoka	RTC Safety and Security Renovations	2,250
	Human Services	Systemwide	Child and Adolescent Behavioral Health Services Facility	7,530
	Human Services	Hennepin Cty	Regional Medical Examiner Facility	2,680
	Human Services	St. Paul	Dorothy Day Revision Phase 2	12,000
	Human Services	Carver Cty	Residential Crisis Stabilization Center	1,250
	Metro Council	Systemwide	Metropolitan Regional Parks	5,000
	Metro Council	Systemwide	Orange Line BRT	12,100
	Metro Council	Systemwide	Inflow/Infiltration Grant Program	3,739
	Metro Council	Bloomington	Mall of America Transit Station	8,750
	Metro Council	St. Paul	Como Zoo Habitat Preservation Exhibit Renovation	15,000
	Metro Council	West St. Paul	River to River Regional Greenway	200
	Metro Council	White Bear Lake	Trails	255
	Military Affairs	Systemwide	Asset Preservation	2,500
	MMB	Statewide	Bond Sale Expense	1,039
	MN State	Systemwide	HEAPR	25,000
	MN State	North Mankato	STEM and Healthcare Design and Renovation	9,600
	MN State	Fergus Falls	Center for Student and Workforce Success Design and Renovation	978

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in Thousands)
	MN State	Wadena	Library and Student Development Design and Renovation	820
	MN State	East Grand Forks	Laboratory Design and Renovations	826
	MN State	Hibbing	Campus Reconfiguration	11,223
	MN State	Winona	Education Village Phase 2, Renovation and Demolition	25,306
	MN State	St. Cloud	Student Health and Academic Renovation	18,572
	MN Zoo	Systemwide	Asset Preservation	4,000
	MN.IT Services	Statewide	Repurpose of State-Office Data Center Facilities	1,432
	DNR	Systemwide	Asset Preservation	15,000
	DNR	Systemwide	Flood Hazard Mitigation Grant Assistance Program	7,305
	DNR	Cedar River	Cedar River Watershed District - Flood Hazard Mitigation Grant	1,700
	DNR	Browns Valley	Browns Valley, City of - Flood Hazard Mitigation Grant	750
	DNR	Ortonville	Ortonville, City of - Flood Hazard Mitigation Grant	1,800
	DNR	Statewide	Emergency Dam Safety Repair, Reconstruction and Removal	4,400
	DNR	Lanesboro	Lanesboro Dam	4,000
	DNR	Pelican Rapids	Pelican Rapids Dam	500
	DNR	Pine River	Norway Lake	200
	DNR	Yellow Medicine Cty	Canby R-6	200
	DNR	St. Louis County	Little Stone Lake	100
	DNR	Dakota Cty	Byllesby Dam	6,000
	DNR	Systemwide	State Land Reforestation and Stand Improvement	1,000
	DNR	Systemwide	Glacial Lakes Trail	2,590
	DNR	Systemwide	Heartland Trail	3,300
	DNR	Systemwide	Cuyuna State Recreation Area	3,600
	DNR	Little Falls	Camp Ripley/Veterans State Trail	1,600
	DNR	Lake Vermillion	Soudan State Park	3,500
	DNR	Systemwide	Mill Towns State Trail	328
	DNR	Systemwide	Gitchi-Gami State Trail	3,130
	DNR	St. Paul	Shade Tree Reforestation	1,500
	DNR	Lake County	Prospectors ATV Trail System	1,000
	DNR	Morrison County	Soo Line Trail - Bridge Pier Restoration Project	400
	DNR	Champlin	Mill Pond Restoration	3,300
	PCA	St. Louis River	St. Louis River Area of Concern	25,410
	PCA	Statewide	Closed Landfill Construction	11,350
	PCA	Polk Cty	Capital Assistance Program	9,250
	PFA	Statewide	State Matching Funds EPA SRF Capitalization Grants	17,000
	PFA	Statewide	Wastewater Infrastructure Funding Program	40,000
	PFA	Statewide	Drinking Water Projects	15,000
	PFA	Statewide	Water Infrastructure Initiative	33,737
	PFA	Big Lake	Sewer System and Force Main	1,200

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in Thousands)
	PFA	Clearbrook	Water Plant Curb and Gutter	850
	PFA	Clear Lake	Clear Water Sewer District	300
	PFA	Dennison	Lift Station and Sewer Projects	726
	PFA	East Grand Forks	Interconnect with Grand Forks, ND	5,300
	PFA	Koochiching Cty	Island View Sewer Project	2,000
	Public Safety	Camp Ripley	Oil Train Derailment - Joint Emergency Response Training Center	3,521
	MN Academies	Systemwide	Asset Preservation	2,000
	MN Academies	Faribault	Security Corridor Design	50
	MnDOT	Moorhead	Rail Grade Separation on Crude Oil Rail Lines Program	42,262
	MnDOT	Red Wing	Rail Grade Separation on Crude Oil Rail Lines Program	14,762
	MnDOT	Anoka County	Rail Grade Separation on Crude Oil Rail Lines Program	14,100
	MnDOT	Statewide	Highway/Railroad Grade Crossing - Warning Devices Replacement	1,000
	MnDOT	Statewide	Port Development Assistance Program	5,000
	MnDOT	Statewide	Minnesota Rail Service Improvement Program	1,000
	MnDOT	Statewide	Safe Routes To School Infrastructure Program	1,000
	MnDOT	Statewide	Local Bridge Replacement Program Grants	16,537
	MnDOT	Isle	Malone Island Bridge	800
	MnDOT	Minneapolis	10th Avenue SE Bridge	31,875
	MnDOT	Statewide	Local Road Improvement Fund Grants	25,336
	MnDOT	Anoka County	35W and Lake Drive & W Freeway Drive	9,000
	MnDOT	Appleton Township	100th Street SW Road Upgrade	1,000
	MnDOT	Blaine	Reconstruction of 105th Avenue	3,246
	MnDOT	Baxter	Cypress Drive	6,000
	MnDOT	Carver Cty	Highway 212/County Rd 44 Interchange	10,500
	MnDOT	Hennepin Cty	U.S. Highway 12 Interchange	11,300
	MnDOT	Hennepin Cty	Interstate 35W/CSAH 3 Transit/Access Project	25,000
	MnDOT	Inver Grove Hgts	Broderick Boulevard Reconstruction	1,000
	MnDOT	McLeod Cty	Morningside (CSAH 15) Corridor Completion	2,350
	MnDOT	Ramsey Cty	Interstate Highway 694/Rice Street Interchange	20,500
	MnDOT	Redwood Cty	Veterans Cemetary Access	700
	MnDOT	International Falls	Koochiching Cty Airport Comm. - Airline Terminal Construction	3,000
	MnDOT	Grand Rapids	Mississippi River Pedestrian Bridge	750
	MnDOT	Eden	Pedestrian Rail Crossing	1,400
	MnDOT	Hugo	Short line freight railway trackage repair	1,500

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in Thousands)
	MnDOT	Minnesota Valley	Rail Authority - Rail and Bridge Rehabiltiation	4,000
	U of M	Systemwide	HEAPR	20,600
	U of M	Minneapolis	Chemistry and Advanced Materials Science Building	28,267
	U of M	Minneapolis	Health Sciences Education Facility	66,667
	U of M	Minneapolis	Plant Growth Research Facility	4,400
	Vets Affairs	Systemwide	Asset Preservation	5,000
	Vets Affairs	Minneapolis	Veterans Home Truss Bridge Project	7,851
	Vets Affairs	Rice Cty	Veterans Memorial	30
	BWSR	Statewide	Reinvest in Minnesota Reserve Program	10,000
	BWSR	Statewide	Local Government Roads Wetland Replacement Program	5,000

DESCRIPTION OF RURAL FINANCE AUTHORITY PROGRAMS

The Rural Finance Authority (RFA) currently administers nine loan programs to provide affordable credit to eligible farmers, and one program to provide financial assistance to proposed methane digester projects.

Five programs are funded from the sale of general obligation bonds. They include: the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program, the Agricultural Improvement Program, the Livestock Expansion Loan Program and the Restructure II Loan Program.

All five programs are participation programs whereby the RFA joins in partnership with local lending institutions to provide credit based upon certain pre-established rules. Over 450 financial facilities are included in master participation agreements.

General eligibility requirements for all five programs are: (1) a borrower must be a resident of Minnesota or a domestic family farm corporation or family farm partnership, as defined in Minnesota Statutes, Section 500.24, subdivision 2; and (2) the borrower or one of the borrowers must be the principal operator of the farm with respect to which the loan is made.

Security for the loans must be a first mortgage on agricultural real estate and a first lien security interest in any additional collateral deemed necessary by the lead financial institution or the RFA. The interest rate for the RFA portion of a loan is set to meet the debt service requirements of the bonds sold to finance it plus one-quarter of one percent for deposit into a loan loss reserve. The maximum term for loan participations is ten (10) years unless otherwise stated by the RFA.

The following is a more extensive description of each of the five loan participation programs:

Beginning Farmer Loan Program

This program is aimed at younger, lower equity individuals who intend, over time, to become full time farmers. The purpose is to enable the beginning farmer to purchase farm real estate. The RFA participation is limited to 45 percent of the loan principal up to a maximum of $400,000. Each loan requires a minimum down payment of 10 percent of the purchase price. Loan amortization may be scheduled on a term of 15, 20, 25 or 30 years as negotiated among the lender, the borrower and the RFA. RFA participation is for a maximum of 10 years. A Borrower must (1) have sufficient education, training or experience to succeed in the type of farming that they intend to pursue; (2) have a total net worth not exceeding $800,000, indexed for inflation; (3) agree to enroll in a farm business management program approved by the Commissioner of Agriculture; and (4) agree to obtain credit life insurance for the amount of the debt incurred.

Seller-Sponsored Loan Program

This program is very similar to the Beginning Farmer program with one exception. This program is designed to permit the sellers of a farm to fund a portion of the financing essential to the completion of the sale. The seller agrees to subordinate its financing to the lender/RFA. The lender and the RFA provide the balance of the funds with a first mortgage. The down payment is negotiable. The program rules do not, however, require one to be made. Each lender determines its own requirements based on the buyer's ability to repay the needed financing.

Agricultural Improvement Program

This program creates affordable financing for new, state-of-the-art improvements for agriculture production, including the purchase and construction or installation of improvements to land, buildings and other permanent structures, and equipment incorporated in or permanently affixed to the land, buildings or structures, which are useful for and intended for the purpose of improving a farm. The improvements can be for any farm related purpose including livestock facilities, grain handling facilities, machine storage, erosion control, wells and manure systems. The RFA participation is 45 percent of the loan principal to a maximum of $400,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must have a total net worth not exceeding $800,000, indexed for inflation.

Restructured II Loan Program

Under this program, the RFA works with local lenders to help farmers reorganize their debt. This program is for farmers who remain in good credit standing with their local lender, but who are having trouble with cash flow. Only debt of an agricultural nature is eligible. The RFA will participate on 45 percent of the loan principal up to $525,000. The loans may be amortized over a period of up to 25 years. Participation is restricted to loans that do not exceed 80 percent of the appraised value of real estate comprising collateral for the loan. A borrower must (1) have received at least 50 percent of average annual gross income from farming for the past three years; (2) have a net worth not exceeding $1,700,000, indexed for inflation; and (3) have projected annual expenses not exceeding 95 percent of projected annual income.

Livestock Expansion Program

This program is similar to the Agricultural Improvement program, but only for livestock related needs. It creates affordable financing for new, state-of-the-art improvements to land, buildings and other permanent structures, and equipment incorporated in or permanently affixed to the land, buildings or structures, which are useful for and intended for the purpose of raising livestock. The RFA may participate on a loan up to 45 percent of the loan principal to a maximum of $525,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must (1) be actively engaged in a livestock operation; (2) have the ability to repay the loan; and (3) have a total net worth not exceeding $1,700,000, indexed for inflation.

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SCHEDULE OF BONDS BEING REFUNDED

Various Purpose Refunding Bonds:

General Obligation State Various Purpose Bonds, Series 2009K dated November 5, 2009, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2020, will be called for redemption and prepayment on November 1, 2019, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
11/01/2020	$895,000	4.000%	604129SU1
11/01/2020	10,320,000	5.000%	604129SY3
11/01/2021	11,205,000	5.000%	604129TA4
11/01/2022	11,200,000	5.000%	604129TB2
Total	$33,620,000		

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

General Obligation State Various Purpose Bonds, Series 2010A dated August 19, 2010, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2021, will be called for redemption and prepayment on August 1, 2020, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
8/01/2021	$31,525,000	5.000%	604129UZ7
8/01/2022	31,525,000	5.000%	604129VA1
8/01/2023	31,525,000	5.000%	604129VB9
8/01/2024	31,525,000	5.000%	604129VC7
8/01/2025	31,525,000	5.000%	604129VD5
8/01/2026	31,525,000	5.000%	604129VE3
8/01/2027	31,525,000	5.000%	604129VF0
8/01/2028	31,525,000	5.000%	604129VG8
8/01/2029	31,525,000	4.000%	604129VH6
8/01/2030	31,525,000	4.000%	604129VJ2
Total	$315,250,000		

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

Trunk Highway Refunding Bonds:

General Obligation State Trunk Highway Bonds, Series 2009B dated January 29, 2009, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after December 1, 2020, will be called for redemption and prepayment on December 1, 2019, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
12/01/2020	$3,185,000	4.000%	604129MA1
12/01/2021	3,185,000	4.000%	604129MB9
12/01/2022	3,185,000	4.000%	604129MC7
12/01/2023	3,185,000	4.000%	604129MD5
12/01/2024	3,185,000	4.000%	604129ME3
12/01/2025	3,185,000	4.000%	604129MF0
12/01/2026	3,185,000	4.125%	604129MG8
12/01/2027	3,185,000	4.250%	604129MH6
12/01/2028	3,185,000	4.375%	604129MJ2
Total	$28,665,000		

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

General Obligation State Trunk Highway Bonds, Series 2009E dated August 26, 2009, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after August 1, 2020, will be called for redemption and prepayment on August 1, 2019, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
08/01/2020	$4,000,000	4.000%	604129NT9
08/01/2021	4,000,000	4.000%	604129NU6
08/01/2022	4,000,000	4.000%	604129NV4
08/01/2023	4,000,000	4.000%	604129NW2
08/01/2024	4,000,000	4.000%	604129NX0
08/01/2025	4,000,000	4.000%	604129NY8
08/01/2026	4,000,000	4.000%	604129NZ5
08/01/2027	4,000,000	4.000%	604129PA8
08/01/2028	4,000,000	4.000%	604129PB6
08/01/2029	4,000,000	4.000%	604129PC4
Total	$40,000,000		

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

General Obligation State Trunk Highway Bonds, Series 2009I dated November 5, 2009, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after November 1, 2020, will be called for redemption and prepayment on November 1, 2019, at par plus accrued interest.

Maturing	Principal Amount	Interest Rate	CUSIP*
11/01/2020	$1,000,000	4.000%	604129RV0
11/01/2021	1,000,000	4.000%	604129RW8
11/01/2022	1,000,000	4.000%	604129RX6
11/01/2023	1,000,000	4.000%	604129RY4
11/01/2024	1,000,000	4.000%	604129RZ1
11/01/2025	1,000,000	4.000%	604129SA5
11/01/2026	1,000,000	4.000%	604129SB3
11/01/2027	1,000,000	5.000%	604129SC1
11/01/2028	1,000,000	4.000%	604129SD9
11/01/2029	1,000,000	4.000%	604129SE7
Total	$10,000,000		

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

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APPENDIX E

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

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SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

RESIDENT POPULATION
(Thousands of Persons)

Year	U.S.	Minnesota	Minnesota Share of U.S.	% Change U.S.	% Change Minnesota
Census (April 1)					
2000	281,425	4,920	1.75 %	-	-
2010	308,746	5,304	1.72	-	-
Intercensal Population Estimates (July 1)					
2000	282,162	4,934	1.75 %	1.1 %	1.2 %
2001	284,969	4,983	1.75	1.0	1.0
2002	287,625	5,019	1.74	0.9	0.7
2003	290,108	5,054	1.74	0.9	0.7
2004	292,805	5,088	1.74	0.9	0.7
2005	295,517	5,120	1.73	0.9	0.6
2006	298,380	5,164	1.73	1.0	0.9
2007	301,231	5,207	1.73	1.0	0.8
2008	304,094	5,247	1.73	1.0	0.8
2009	306,772	5,281	1.72	0.9	0.7
2010	309,348	5,311	1.72	0.8	0.6
2011	311,663	5,349	1.72	0.7	0.7
2012	313,998	5,380	1.71	0.7	0.6
2013	316,205	5,419	1.71	0.7	0.7
2014	318,563	5,453	1.71	0.7	0.6
2015	320,897	5,482	1.71	0.7	0.5
2016	323,128	5,520	1.71	0.7	0.7

Source: U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff in June 2017.

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NON-FARM EMPLOYMENT-MIX OF MINNESOTA AND UNITED STATES FOR 2016
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Total Private	2,491.7	85.3	123,026	84.7
Goods-Producing	443.2	15.2	19,794	13.6
Mining and Logging	6.4	0.2	668	0.5
Construction	118.9	4.1	6,783	4.7
Manufacturing Durables	201.7	6.9	7,708	5.3
Manufacturing Non-Durables	116.2	4.0	4,635	3.2
Private Service Providing	2,048.5	70.1	103,232	71.0
Wholesale Trade	131.6	4.5	5,888	4.1
Retail Trade	301.1	10.3	15,881	10.9
Transportation, Warehousing, Utilities	102.9	3.5	5,605	3.9
Information	50.9	1.7	2,762	1.9
Financial Activities	177.5	6.1	8,364	5.8
Professional and Business Services	375.8	12.9	20,416	14.0
Education and Health Services	531.2	18.2	22,871	15.7
Leisure and Hospitality	261.6	9.0	15,744	10.8
Other Services	115.9	4.0	5,701	3.9
Government	429.7	14.7	22,299	15.3
Total (Non-Farm)	**2,921.4**	**100.0**	**145,325**	**100.0**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2017.

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EMPLOYMENT-MIX IN DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2016
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Wood Products	11.2	5.6	396	5.1
Fabricated Metal Products	42.1	20.9	1,422	18.4
Machinery	33.0	16.4	1,076	14.0
Computers and Electronic Products	45.7	22.6	1,039	13.5
Transportation Equipment	11.0	5.5	1,620	21.0
Medical Equipment and Supplies	15.9	7.9	309	4.0
Other Durables	42.7	21.2	1,847	24.0
Total Durable Goods Manufacturing	**201.7**	**100.0**	**7,708**	**100.0**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2017.

EMPLOYMENT-MIX IN NON-DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2016
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	46.6	40.1	1,568	33.8
Paper Mfg., & Printing and Related	32.0	27.6	811	17.5
Other Non-Durables	37.5	32.3	2,256	48.7
Total Non-Durable Goods	**116.2**	**100.0**	**4,635**	**100.0**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2017.

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NON-FARM EMPLOYMENT-MIX OF UNITED STATES AND MINNESOTA: 1990, 2000 AND 2010
(Thousands of Jobs)

	Minnesota					United States				
				%Change					% Change	
Category	**1990**	**2000**	**2010**	**90-00**	**00-10**	**1990**	**2000**	**2010**	**90-00**	**00-10**
Total Private	1,788.0	2,277.3	2,224.1	27.4	(2.3)	91,072	111,235	107,871	22.1	(3.0)
Goods-Producing	427.8	523.5	386.3	22.4	(26.2)	23,723	24,649	17,751	3.9	(28.0)
Mining and Logging	8.4	8.1	6.0	(3.6)	(26.3)	765	599	705	(21.7)	17.7
Construction	77.9	118.8	87.6	52.5	(26.3)	5,263	6,787	5,518	29.0	(18.7)
Manufacturing Durables	217.2	255.4	183.4	17.6	(28.2)	10,737	10,877	7,064	1.3	(35.1)
Manufacturing Non-Durables	124.2	141.1	109.3	13.6	(22.5)	6,958	6,386	4,464	(8.2)	(30.1)
Private Service Providing	1,360.2	1,753.7	1,837.8	28.9	4.8	67,349	86,585	90,120	28.6	4.1
Wholesale Trade	106.6	129.0	123.2	21.0	(4.5)	5,268	5,933	5,452	12.6	(8.1)
Retail Trade	255.8	307.1	277.1	20.1	(9.8)	13,182	15,280	14,440	15.9	(5.5)
Transportation, Warehousing, Utilities	85.8	103.3	89.7	20.4	(13.1)	4,216	5,012	4,744	18.9	(5.3)
Information	54.3	69.2	54.1	27.4	(21.8)	2,688	3,630	2,707	35.0	(25.4)
Financial Activities	129.3	164.8	170.8	27.5	3.6	6,614	7,783	7,695	17.7	(1.1)
Professional and Business Services	214.5	319.2	315.2	48.8	(1.3)	10,848	16,666	16,728	53.6	0.4
Education and Health Services	241.8	324.5	458.4	34.2	41.3	10,984	15,252	19,975	38.9	31.0
Leisure and Hospitality	180.5	221.6	235.2	22.8	6.1	9,288	11,862	13,049	27.7	10.0
Other Services	91.3	114.6	114.1	25.5	(0.5)	4,261	5,168	5,331	21.3	3.2
Government	347.9	407.6	416.5	17.2	2.2	18,415	20,790	22,490	12.9	8.2
Total (Non-Farm)	**2,135.9**	**2,684.9**	**2,640.6**	**25.7**	**(1.7)**	**109,487**	**132,024**	**130,361**	**20.6**	**(1.3)**

Note: Columns may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff June 2017.

MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1995	$24,169	$23,568	102.5%
1996	25,778	24,728	104.2
1997	26,938	25,950	103.8
1998	29,010	27,510	105.5
1999	30,134	28,627	105.3
2000	32,247	30,602	105.4
2001	33,204	31,540	105.3
2002	33,754	31,815	106.1
2003	35,174	32,692	107.6
2004	37,048	34,316	108.0
2005	37,775	35,904	105.2
2006	39,407	38,144	103.3
2007	41,258	39,821	103.6
2008	42,980	41,082	104.6
2009	40,739	39,376	103.5
2010	42,123	40,277	104.6
2011	44,617	42,461	105.1
2012	47,213	44,282	106.6
2013	47,253	44,493	106.2
2014	49,169	46,464	105.8
2015	50,938	48,190	105.7
2016	52,117	49,571	105.1

Note: Per capita personal income is total personal income divided by total midyear population estimates of the Census Bureau.
Note: Current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis, https://www.bea.gov/regional/index.htm.
U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff June 2017.

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PERSONAL INCOME GROWTH AND RESIDENT POPULATION IN TWELVE STATE NORTH CENTRAL REGION 1990-2000 AND 2000-2010

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Growth Rank 1990-2000	2010 Personal Income (Millions)	2000-2010 Annual Compound Rate of Increase (%)	Regional Growth Rank 2000-2010	2000 Census Population (Thousands)	2000 Per Capita Personal Income ($)	2000 Regional Rank	2010 Census Population (Thousands)	2010 Per Capita Personal Income ($)	2010 Regional Rank
Illinois	$240,750	$412,843	5.5%	5	$535,464	2.6%	10	12,434	$32,202	1	12,842	$41,698	3
Indiana	$98,288	$171,539	5.7	4	$227,692	2.9	9	6,092	$28,159	8	6,491	$35,081	12
Iowa	$49,067	$80,585	5.1	10	$115,763	3.7	5	2,929	$27,512	10	3,051	$37,946	8
Kansas	$45,671	$76,512	5.3	9	$112,084	3.7	4	2,694	$28,404	7	2,859	$39,206	6
Michigan	$176,444	$302,464	5.5	6	$347,723	1.4	12	9,952	$30,391	3	9,877	$35,204	11
Minnesota	$86,896	$159,097	6.2	1	$223,700	3.5	6	4,934	$32,247	2	5,311	$42,119	2
Missouri	$91,774	$156,903	5.5	7	$2220,252	3.4	7	5,607	$27,982	9	5,996	$36,732	9
Nebraska	$29,214	$49,512	5.4	8	$74,149	4.1	3	1,714	$28,890	5	1,830	$40,518	5
North Dakota	$10,290	$16,695	5.0	11	$29,450	5.8	1	642	$26,004	12	675	$43,661	1
Ohio	$202,827	$323,965	4.8	12	$419,570	2.6	11	11,364	$28,509	6	11,541	$36,355	10
South Dakota	$11,513	$20,263	5.8	3	$33,521	5.2	2	756	$26,808	11	816	$41,063	4
Wisconsin	$90,143	$159,511	5.9	2	$219,628	3.2	8	5,374	$29,682	4	5,690	$38,597	7
Region	**$1,132,879**	**$1,929,889**	**5.5**		**$2,558,996**	**2.9**		**64,491**	**$29,925**		**66,979**	**$38,206**	
U.S.	**$4,890,453**	**$8,634,847**	**5.8**		**$12,459,613**	**3.7**		**281,162**	**$30,602**		**309,348**	**$40,277**	

Note: Per capita personal income is total personal income divided by Census population.
Note: Current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi.
U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff June 2017.

PERSONAL INCOME GROWTH IN TWELVE STATE NORTH CENTRAL REGION: 2015-2016
($'s in Millions)

Growth Rank	State	2015 Personal Income	2016 Personal Income	Percent Growth
1	Indiana	$277,629	$288,487	3.9%
2	Michigan	$424,807	$440,292	3.6
3	Illinois	$646,789	$666,936	3.1
4	Wisconsin	$264,988	$273,189	3.1
5	Missouri	$257,338	$266,406	3.5
6	Minnesota	$279,263	$287,682	3.0
7	Ohio	$505,950	$521,209	3.0
8	Kansas	$137,316	$141,112	2.8
9	Nebraska	$92,048	$94,662	2.8
10	Iowa	$143,394	$146,685	2.3
11	South Dakota	$41,104	$41,584	1.2
12	North Dakota	$42,350	$41,716	-1.5
	Region	**$3,112,977**	**$3,209,958**	**3.1**
	U.S.	**$15,463,981**	**$16,017,781**	**3.6**

Note: Columns may not add due to rounding
Note: Current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/spi
Data extracted by MMB staff June 2017.

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NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION: 1990-2000 AND 2000-2010
(Thousands of Jobs)

State	1990 Non-Farm Employment	2000 Non-Farm Employment	1990-2000 Percent Increase	Regional Growth Rank 1990-2000	2010 Non-Farm Employment	2000-2010 Percent Increase	Regional Growth Rank 2000-2010
Illinois	5,288	6,042	14.3%	12	5,610	(7.1)%	10
Indiana	2,522	3,004	19.1	8	2,799	(6.8)	9
Iowa	1,226	1,479	20.6	7	1,469	(0.6)	4
Kansas	1,092	1,346	23.3	6	1,330	(1.2)	5
Michigan	3,944	4,676	18.5	9	3,864	(17.4)	12
Minnesota	2,136	2,683	25.6	2	2,638	(1.7)	6
Missouri	2,345	2,749	17.2	10	2,658	(3.3)	7
Nebraska	731	913	24.9	3	945	3.5	3
North Dakota	266	328	23.3	5	376	14.7	1
Ohio	4,882	5,625	15.2	11	5,036	(10.5)	11
South Dakota	289	378	31.0	1	403	6.7	2
Wisconsin	2,291	2,832	23.6	4	2,725	(3.8)	8
Region	**27,012**	**32,053**	**18.7%**		**29,853**	**(6.9)%**	
U.S.	**109,527**	**132,024**	**20.5%**		**130,361**	**(1.3)%**	

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2017.

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NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION:
2014-2015 AND 2015-2016
(Thousands of Jobs)

State	2014 Non-Farm Employment	2015 Non-Farm Employment	2014-2015 Percent Increase	Regional Growth Rank 2014-2015	2016 Non-Farm Employment	2015-2016 Percent Increase	Regional Growth Rank 2015-2016
Illinois	5,880	5,969	1.5	3	6,013	0.7	9
Indiana	2,980	3,036	1.9	2	3,083	1.5	3
Iowa	1,547	1,561	0.9	10	1,570	0.6	10
Kansas	1,391	1,402	0.8	11	1,410	0.5	11
Michigan	4,182	4,244	1.5	6	4,326	1.9	1
Minnesota	2,814	2,856	1.5	4	2,896	1.4	4
Missouri	2,739	2,797	2.1	1	2,842	1.6	2
Nebraska	993	1,007	1.4	8	1,015	0.8	8
North Dakota	461	454	(1.7)	12	435	(4.1)	12
Ohio	5,344	5,424	1.5	5	5,481	1.1	6
South Dakota	424	428	1.1	9	433	1.0	7
Wisconsin	2,852	2,892	1.4	7	2,924	1.1	5
Region	**31,606**	**32,069**	**1.5%**		**32,427**	**1.1%**	
U.S.	**138,958**	**141,843**	**2.1%**		**144,306**	**1.7%**	

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2017.

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MINNESOTA & UNITED STATES UNEMPLOYMENT RATES
(Percent)

	Annual Average	
Year	**Minnesota %**	**U.S. %**
2000	3.2	4.0
2001	3.8	4.7
2002	4.5	5.8
2003	4.9	6.0
2004	4.7	5.5
2005	4.1	5.1
2006	4.0	4.6
2007	4.6	4.6
2008	5.4	5.8
2009	7.8	9.3
2010	7.4	9.6
2011	6.5	9.0
2012	5.6	8.1
2013	4.9	7.4
2014	4.1	6.2
2015	3.8	5.3
2016	3.9	4.9

	Monthly Figures (Seasonally Adjusted)	
Month	**Minnesota %**	**U.S. %**
2016		
January	3.9	4.9
February	3.9	4.9
March	3.9	5.0
April	3.8	5.0
May	3.9	4.7
June	3.9	4.9
July	3.9	4.9
August	4.0	4.9
September	4.0	5.0
October	4.0	4.9
November	4.0	4.6
December	4.0	4.7
2017		
January	4.0	4.8
February	4.0	4.7
March	3.8	4.5
April	3.8	4.4
May	3.7	4.3
June	3.7	4.4
July	3.7	4.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov
Minnesota Department of Employment and Economic Development, http://mn.gov/deed/data/.
Data extracted by MMB staff September 2017.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

($ in millions)

Rank 2016	Rank 2015	Company	Revenues	Assets	Profits	Industry Category	Industry Rank
6	6	UnitedHealth Group	$ 184,840	$ 122,810	$ 7,017	Health Care: Insurance & Managed Care	1
38	38	Target	$ 69,495	$ 37,431	$ 2,737	General Merchandisers	3
72	71	Best Buy	$ 39,403	$ 13,856	$ 1,228	Specialty Retailers: Other	3
93	84	Cenex Harvest States (CHS)	$ 30,347	$ 17,318	$ 424	Food Production	3
94	93	Minnesota Mining & Mfg. (3M)	$ 30,109	$ 32,906	$ 5,050	Miscellaneous	1
125	131	U.S. Bancorp	$ 22,744	$ 445,964	$ 5,888	Commercial Banks	8
158	160	Supervalu	$ 17,529	$ 4,370	$ 178	Food and Drug Stores	6
165	161	General Mills	$ 16,563	$ 21,712	$ 1,697	Food Consumer Products	4
209	215	Land O'Lakes	$ 13,233	$ 8,305	$ 245	Food Consumer Products	6
211	206	Ecolab	$ 13,153	$ 18,330	$ 1,230	Chemicals	5
212	208	C.H. Robinson Worldwide	$ 13,144	$ 3,688	$ 513	Transportation and Logistics	2
239	232	Ameriprise Financial	$ 11,735	$ 139,821	$ 1,314	Diversified Financials	8
256	257	Xcel Energy	$ 11,107	$ 41,155	$ 1,123	Utilities: Gas and Electric	12
295	304	Hormel Foods	$ 9,523	$ 6,370	$ 890	Food Consumer Products	8
316	318	Thrivent Financial for Lutherans	$ 8,777	$ 88,561	$ 588	Insurance: Life, Health (Mutual)	6
377	316	Mosaic	$ 7,163	$ 16,841	$ 298	Chemicals	11
434	465	St. Jude Medical	$ 6,004	$ 12,578	$ 734	Medical Products and Equipment	7
466	--	Patterson Companies Inc.	$ 5,555	$ 3,521	$ 187	Wholesalers: Health Care	6

Source: Fortune Magazine, http://fortune.com/fortune500/
Data extracted by MMB staff June 2017.

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APPENDIX F
SELECTED STATE FINANCIAL STATEMENTS
For the Fiscal Year
Ended June 30, 2016

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APPENDIX F
SELECTED STATE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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BASIC FINANCIAL STATEMENTS

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Mark Dayton, Governor

Mr. Myron Frans, Commissioner, Minnesota Management and Budget

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2016, which collectively comprise the state's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The State of Minnesota's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities, which is a major proprietary fund and represents 59 percent, 47 percent, and 32 percent, respectively, of the total assets, total net position, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, Office of Higher Education, Public Facilities Authority, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 95 percent, 92 percent, and 99 percent, respectively, of the total assets, total net position, and operating revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned major proprietary fund, business-type activities, and discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State of Minnesota's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Minnesota's internal control. Accordingly, we express no such opinion.

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The financial statements of the Housing Finance Agency, the National Sports Center Foundation, and the Workers' Compensation Assigned Risk Plan, which are discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Actuarial Assumptions

As mentioned in Note 8 to the financial statements (on page 113), most defined benefit plans changed a key assumption used to calculate the net pension liability the State of Minnesota will report in fiscal year 2017; the plans changed the long-term projected rate of investment return from 7.9 percent to 7.5 percent.[1] That change, along with changes to other actuarial assumptions,[2] will significantly increase the net pension liability the State of Minnesota will report for fiscal year 2017.[3] For example, the state's reported net pension liability for its share of the State Employees Retirement Fund will increase from about $1.1 billion at June 30, 2016, to about $9 billion at June 30, 2017, an increase of over 700 percent. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the State of Minnesota's basic financial statements, is required by the Governmental Accounting

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[1] The defined benefit plans that made this change included the State Employees Retirement Fund, the Correctional Employees Retirement Fund, the General Employees Retirement Fund, the Judges Retirement Fund, the Legislators Retirement Fund, and the State Patrol Retirement Fund.

[2] Other changes to the Teachers Retirement Fund's actuarial assumptions will significantly increase the net pension liability the State of Minnesota will report for fiscal year 2017.

[3] The net pension liability is the amount by which the estimated present value of future pension obligations exceeds money on hand set aside to make those payments. Pension plan administrators' actuaries determine these amounts through actuarial valuations and measurements that use assumptions about events which occur many years into the future. No one set of assumptions is uniquely correct.

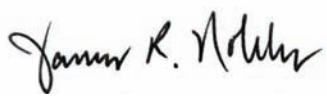
Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

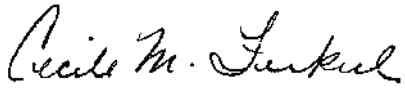
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Minnesota's basic financial statements. The Introduction, the Combining and Individual Nonmajor Fund Financial Statements and Schedules, General Obligation Debt Schedule, and the Statistical Section, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Combining and Individual Nonmajor Fund Financial Statements and Schedules and the General Obligation Debt Schedule have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Introduction and Statistical Sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the State of Minnesota's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.





James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

December 16, 2016

MINNESOTA

2016 Comprehensive Annual Financial Report

Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2016, and identifies changes in the financial position of the state that occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

Overview of the Financial Statements

The focus of Minnesota's financial reporting is on the state as a whole, and on the individual funds that are considered to be major. This reporting focus presents a more comprehensive view of Minnesota's financial activities and financial position, and makes the comparison of Minnesota's government to other governments easier.

The financial section of this annual report has four parts:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplementary Information
- Combining and Individual Fund Statements – Nonmajor Funds

The report also includes statistical and economic information, which generally provides a ten-year history of various indicators.

The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements that provide more detailed information.

Government-wide Financial Statements

The government-wide financial statements provide an overall view of the state's operations in a manner similar to a private-sector business. Government-wide financial statements consist of the statement of net position and the statement of activities that are prepared using the economic resources measurement focus and the accrual basis of accounting. All current year revenues and expenses are included in the statements regardless of whether the related cash has been received or paid. Revenues and expenses are reported in the statement of activities for some items that will not result in cash flows until future fiscal periods (e.g. uncollected taxes, accounts receivable, and earned but unused vacation leave). This reporting method produces a view of financial activities and position similar to that presented by most private-sector companies. The statements provide both short-term and long-term information about the state's financial position, which assists readers in assessing the state's economic condition at the end of the fiscal year.

The government-wide financial statements are located immediately following this discussion and analysis.

The statement of net position presents all of the state's financial resources along with capital assets and long-term obligations. The statement includes all assets and liabilities of the state. Net position is the difference between assets and liabilities and is one method to measure the state's financial condition.

- An increase or decrease in the state's net position from one year to the next indicates whether the financial position of the state is improving or deteriorating.
- Other indicators of the state's financial condition include the condition of its infrastructure and economic events and trends that affect future revenues and expenses.

The statement of activities presents the changes in net position and reports on the gross and net cost of various activities carried out by the state (governmental, business-type, and component units). These costs are paid by general taxes and other revenues generated by the state. This statement summarizes the cost of providing specific services by the government, and includes all current year revenues and expenses.

The statement of net position and the statement of activities segregate the activities of the state into three types:

Governmental Activities

The governmental activities of the state include most basic services such as environmental resources, general government, transportation, education, health and human services, and public safety. Most of the costs of these activities are financed by taxes, fees, and federal grants.

Business-type Activities

The business-type activities of the state normally are intended to recover all, or a significant portion of, their costs through user fees and charges to external users of goods and services. The operations of the Unemployment Insurance Fund, the State Colleges and Universities, and the Lottery are examples of business-type activities.

Discretely Presented Component Units

Component units may be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the state's operations. Discretely presented component units are shown separately from the primary government. Component units are legally separate organizations for which the state is financially accountable, or the nature and significance of the unit's relationship with the state is such that exclusion of the unit would cause the state's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit governing body, and either a) the ability of the state to impose its will, or b) the potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government.

The state's ten component units are reported as discretely presented component units and reported in two categories: major and nonmajor. This categorization is based on the relative size of an individual component unit's assets, liabilities, revenues, and expenses in relation to the total of all component units and the primary government.

The state's three major component units are:

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota

The state's seven nonmajor component units are combined into a single column for reporting in the fund financial statements. These nonmajor component units are:

- Agricultural and Economic Development Board
- National Sports Center Foundation
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan
- Minnesota Sports Facilities Authority

State Fund and Component Unit Financial Statements

A fund is a grouping of related self-balancing accounts used to maintain control over resources that have been segregated for specific activities or objectives. The state of Minnesota, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state, reporting the state's operations in more detail than in the government-wide statements. Fund financial statements focus on the most significant funds within the state.

The state's funds are divided into three categories:

Governmental Funds

Governmental funds record most of the basic services provided by the state and account for essentially the same functions as reported in the governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, the fund financial statements focus on how money flows in and out of the funds during a fiscal year and spendable resources available at the end of the fiscal year.

Governmental funds are accounted for using the modified accrual basis of accounting, which recognizes revenues when they are available and measurable. Expenditures are generally recognized in the accounting period when the fund liability is incurred, if measurable. This approach is known as the flow of current financial resources measurement focus. These statements provide a detailed short-term view of the state's finances that assist in determining whether there are more or less resources available and whether these financial resources will be adequate to meet the current needs of the state. Governmental funds include the General, special revenue, capital project, Debt Service, and Permanent funds.

The focus of governmental funds is narrower than that of the government-wide financial statements. It is useful to compare the information presented for governmental funds with similar information presented for

governmental activities in the government-wide financial statements. By comparing this financial information, readers may better understand the long-term impact of the state's short-term financing decisions.

The basic financial statements include a reconciliation of governmental funds to governmental activities. These reconciliations follow the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances.

The state maintains 23 individual state governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Federal funds, which are reported as major funds. Information from the remaining funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

The state adopts a biennial budget with annual appropriations for the majority of the activity reported in the General Fund. A budgetary comparison statement has been provided for the General Fund activity with appropriations included in the biennial budget to demonstrate compliance with this budget.

Proprietary Funds

When the state charges customers for the services it provides, whether to outside customers or to other agencies within the state, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting which is the same method used by private-sector businesses. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

Enterprise funds, a type of proprietary fund, are used to report activities that provide goods and services to outside (non-government) customers, including the general public. Internal service funds are used to accumulate and allocate costs internally for goods and services provided by one program of the state to another. Because the activities reported by internal service funds predominantly benefit governmental functions rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

The state maintains 18 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds statement of net position and in the proprietary funds statement of revenues, expenses, and changes in net position. Information from the ten nonmajor enterprise funds and the six internal service funds are combined into two separate aggregated columns. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

Fiduciary funds are used to report activities when the state acts as a trustee or fiduciary to hold resources for the benefit of parties outside the state. The accrual basis of accounting is used for fiduciary funds and is similar to the accounting used for proprietary funds. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and cannot be used by the state to finance its operations. The state must ensure that the assets reported in fiduciary funds are used for their intended purposes.

The state maintains 19 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (which account for the transactions, assets, liabilities, and fund equity of the external investment pools), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements included in this report.

Component Units

Component units are legally separate organizations for which the state is financially accountable. The government-wide financial statements present information for the discretely presented component units in a single column on the statement of net position. Also, some information on the statement of changes in net position is aggregated for component units. The discretely presented component units' statements of net position and statements of changes in net position provide detail for each major discretely presented component unit and aggregate the detail for nonmajor discretely presented component units. Individual nonmajor discretely presented component unit detail can be found in the combining financial statements included in this report.

Notes to the Financial Statements

The notes provide additional narrative and financial information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements. The notes to the financial statements are located immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. This section includes maintenance data regarding certain portions of the state's infrastructure, actuarial measures of pension and other postemployment benefits funding progress, and public employees insurance program development information.

Other Supplementary Information

Other supplementary information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds and nonmajor discretely presented component units. These funds are added together by fund type and presented in single columns in the basic financial statements.

Government-wide Financial Analysis

Net position serves as a useful indicator of a government's financial position over time. The state's combined net position (governmental and business-type activities) totaled $16.7 billion at the end of fiscal year 2016, compared to $14.9 billion at the beginning of the year.

Net Position
June 30, 2016, and 2015
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current Assets[1]	$ 15,335,211	$ 15,169,426	$ 3,162,343	$ 2,991,505	$ 18,497,554	$ 18,160,931
Noncurrent Assets:						
Capital Assets[1]	16,064,411	15,123,363	2,270,299	2,187,896	18,334,710	17,311,259
Other Assets	751,107	937,693	107,467	178,296	858,574	1,115,989
Total Assets	$ 32,150,729	$ 31,230,482	$ 5,540,109	$ 5,357,697	$ 37,690,838	$ 36,588,179
Deferred Outflows of Resources	$ 666,160	$ 310,456	$ 75,020	$ 57,932	$ 741,180	$ 368,388
Current Liabilities	$ 5,711,555	$ 6,229,901	$ 440,608	$ 420,722	$ 6,152,163	$ 6,650,623
Noncurrent Liabilities	12,287,991	11,510,440	1,281,207	1,297,892	13,569,198	12,808,332
Total Liabilities	$ 17,999,546	$ 17,740,341	$ 1,721,815	$ 1,718,614	$ 19,721,361	$ 19,458,955
Deferred Inflows of Resources	$ 1,828,043	$ 2,244,784	$ 217,337	$ 313,835	$ 2,045,380	$ 2,558,619
Net Position:						
Net Investment in Capital Assets[1]	$ 12,317,260	$ 11,673,449	$ 1,620,835	$ 1,510,882	$ 13,938,095	$ 13,184,331
Restricted	5,633,354	5,392,483	2,120,972	1,992,311	7,754,326	7,384,794
Unrestricted[1]	(4,961,314)	(5,510,119)	(65,830)	(120,013)	(5,027,144)	(5,630,132)
Total Net Position	$ 12,989,300	$ 11,555,813	$ 3,675,977	$ 3,383,180	$ 16,665,277	$ 14,938,993

[1] 2015 has been restated to be consistent with 2016 presentation.

The largest portion, $13.9 billion of $16.7 billion, of the state's net position reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets) less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to citizens. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately $7.8 billion of the state's net position represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used. Additional information on the state's net position restrictions is located in Note 16 – Equity in the notes to the financial statements.

The remaining net position balance represents a deficit in unrestricted net position of $5.0 billion. This deficit does not mean that the state lacks resources to pay its bills in the near future. Rather, this deficit primarily reflects three significant factors. First, the state, similar to other states, issues general obligation bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net position; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the noncapital portion of net position for most of its governmental activities' special revenue, debt service, and permanent funds as restricted. Third, the state recognized a net pension liability for defined benefit plans to which the state contributes either on behalf of state employees or for employees of other entities. This liability is long-term in nature and is being managed by the retirement systems and the state Legislature.

The state's combined net position for governmental and business-type activities increased $1.7 billion (11.6 percent) over the course of this fiscal year. This resulted from a $1.4 billion (12.4 percent) increase in net position of governmental activities, and a $293 million (8.7 percent) increase in net position of business-type activities.

Changes in Net Position
Fiscal Years Ended June 30, 2016, and 2015
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	$ 1,454,645	$ 1,396,550	$ 2,638,382	$ 2,651,833	$ 4,093,027	$ 4,048,383
Operating Grants and Contributions[1]	10,932,375	10,555,951	481,563	525,297	11,413,938	11,081,248
Capital Grants	194,056	170,102	-	-	194,056	170,102
General Revenues:						
Individual Income Taxes	10,969,019	10,607,930	-	-	10,969,019	10,607,930
Corporate Income Taxes[1]	1,361,681	1,507,608	-	-	1,361,681	1,507,608
Sales Taxes	5,534,870	5,469,773	-	-	5,534,870	5,469,773
Property Taxes	846,216	839,939	-	-	846,216	839,939
Motor Vehicle Taxes	1,428,134	1,395,872	-	-	1,428,134	1,395,872
Fuel Taxes	904,424	908,278	-	-	904,424	908,278
Other Taxes	2,801,323	2,651,969	-	-	2,801,323	2,651,969
Tobacco Settlement	170,179	170,424	-	-	170,179	170,424
Investment/Interest Income	35,289	25,378	44,919	40,583	80,208	65,961
Other Revenues	50,574	63,101	8,067	7,028	58,641	70,129
Total Revenues	$ 36,682,785	$ 35,762,875	$ 3,172,931	$ 3,224,741	$ 39,855,716	$ 38,987,616
Expenses:						
Agricultural, Environmental and Energy Resources	$ 1,023,349	$ 963,432	$ -	$ -	$ 1,023,349	$ 963,432
Economic and Workforce Development	658,893	677,044	-	-	658,893	677,044
General Education	9,434,928	9,087,613	-	-	9,434,928	9,087,613
General Government	1,151,786	1,153,921	-	-	1,151,786	1,153,921
Health and Human Services	15,590,493	15,016,278	-	-	15,590,493	15,016,278
Higher Education	976,351	912,909	-	-	976,351	912,909
Intergovernmental Aid	1,626,833	1,583,636	-	-	1,626,833	1,583,636
Public Safety and Corrections	1,005,349	985,399	-	-	1,005,349	985,399
Transportation	2,814,456	2,898,752	-	-	2,814,456	2,898,752
Interest	305,017	291,983	-	-	305,017	291,983
State Colleges and Universities	-	-	1,910,435	1,905,845	1,910,435	1,905,845
Unemployment Insurance	-	-	801,670	726,529	801,670	726,529
Lottery	-	-	446,860	410,237	446,860	410,237
Other	-	-	383,012	408,408	383,012	408,408
Total Expenses	$ 34,587,455	$ 33,570,967	$ 3,541,977	$ 3,451,019	$ 38,129,432	$ 37,021,986
Excess (Deficiency) Before Transfers	$ 2,095,330	$ 2,191,908	$ (369,046)	$ (226,278)	$ 1,726,284	$ 1,965,630
Transfers	(661,843)	(554,346)	661,843	554,346	-	-
Change in Net Position	$ 1,433,487	$ 1,637,562	$ 292,797	$ 328,068	$ 1,726,284	$ 1,965,630
Net Position, Beginning[1]	$ 11,555,813	$ 9,918,251	$ 3,383,180	$ 3,055,112	$ 14,938,993	$ 12,973,363
Net Position, Ending	$ 12,989,300	$ 11,555,813	$ 3,675,977	$ 3,383,180	$ 16,665,277	$ 14,938,993

[1] 2015 has been restated to be consistent with 2016 presentation.

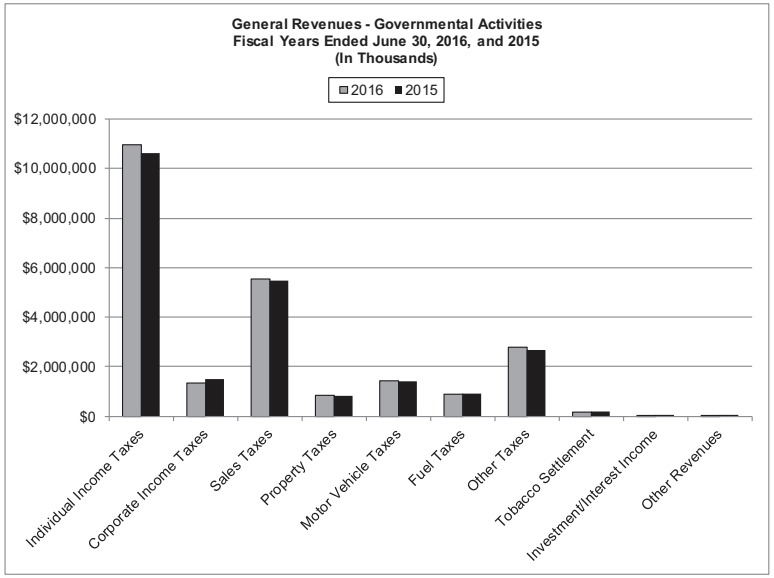
Approximately 60 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 29 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 10 percent of the total revenues. The remaining 1 percent came from other general revenues.

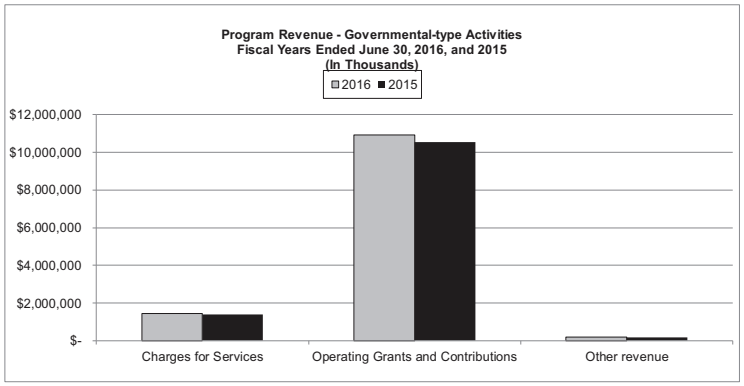
The state's expenses cover a range of services. The largest expenses were for general education, and health and human services.

Governmental Activities

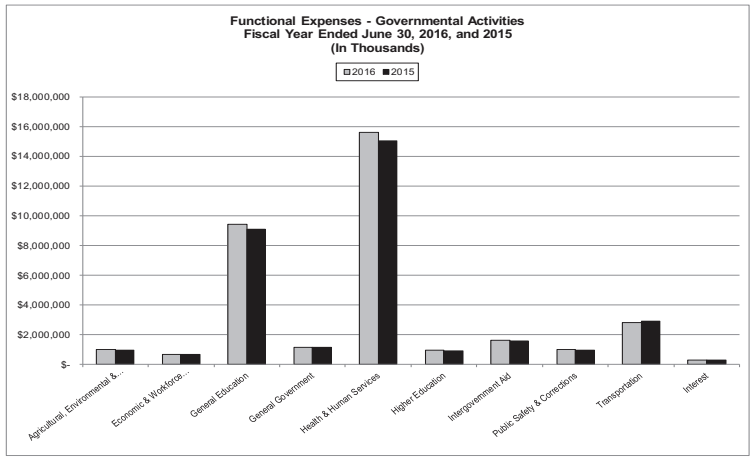
Governmental activities increased the state's net position by $1.4 billion in the current year compared to an increase of $1.6 billion in the prior year.

Revenues increased slightly by $920 million over prior year. The growth rate for sales and individual income taxes remained slower and that growth was offset by a slight decrease in corporate income taxes due to weaker corporate profits. Operating grants and contributions increased slightly due to additional federal revenue resulting from the federal share of the increase in medical assistance expenses, additional funding for the Children's Health Insurance Program, and capitalized infrastructure projects.





There was a $1.0 billion increase in expenses compared to the prior year. The largest increase related to health and human services expenses, which resulted from the increase in enrollment in medical assistance. This was partially offset by the increase in federal revenue for the federal government's share, as noted previously. The increase in general education was primarily due to a two percent per pupil formula increase and a slight increase in the number of pupils. Grants to cities and counties for general aid increased intergovernmental aid, while an increase in grants to the University of Minnesota and the Office of Higher Education (component units) caused an increase in higher education. Projects to restore, enhance, and protect the habitat for fish, game, and wildlife increased agricultural, environmental and energy expenses. Grants to counties for transportation projects were reduced, causing a decrease in transportation.

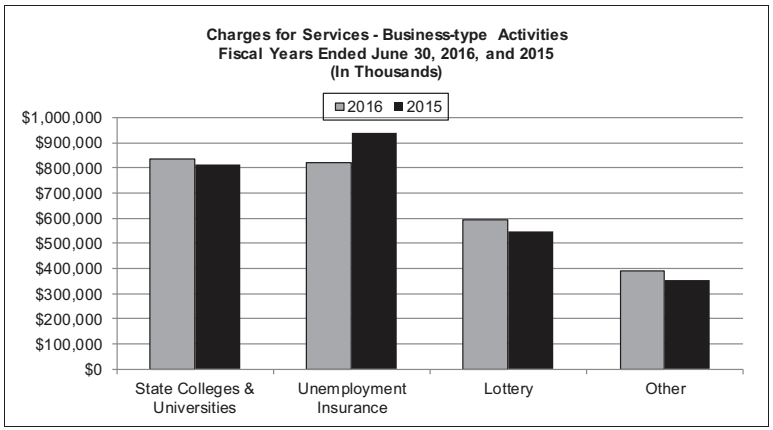


Business-type Activities

Net position for the state's proprietary funds increased by $293 million during the current year compared to $328 million in the prior year. This resulted primarily from a $118 million increase in net position in the State Colleges and Universities Fund and a $61 million increase in net position in the Unemployment Insurance Fund.

The State Colleges and Universities Fund's net position increase of $118 million was $50 million higher than the prior year. Most of this was attributable to a net decrease in net pension expense. Tuition and fees increased due to an increase in tuition rates at universities, but was partially offset by a decrease in enrollment. This decrease in enrollment also caused a reduction in federal grants as students received less financial aid. The Unemployment Insurance Fund's net position increase of $61 million was $180 million less than the prior year. This was primarily attributed to a decrease in insurance premiums due to a reduction in tax rates and additional benefits paid due to an increase in average wages.

During the 2016 legislative session, an employer tax credit of approximately $258 million was passed and will be effective for fiscal year 2017. Employers can apply this credit toward their unemployment taxes due to the state in fiscal year 2017.



Long-Term Liabilities

The state's total long-term liabilities increased by $590 million (4.3 percent) during the current fiscal year. The increase is primarily attributable an increase in the net pension liability and the issuance of state general obligation bonds for trunk highway projects and other various state purposes.

State Funds Financial Analysis

Governmental Funds

The focus of the state's governmental funds is to provide information on near-term cash inflows and outflows during the fiscal year and balances of spendable resources as of fiscal year end. Such information is useful in assessing the state's financial condition. The unassigned fund balance serves as a useful measure of the state's net resources available for future spending at the end of the fiscal year.

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of $9.1 billion, an increase of $479 million over the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $1.6 billion, an increase of $789 million during the current year.

Because the General Fund is the chief operating fund of the state, some of the same variances impacting Governmental Activities impacted the General Fund. As previously noted, the growth rate for sales and individual income taxes remained weak while weaker corporate profits caused a decrease in corporate income taxes.

The General Fund expenditures for general education increased as a result of the two percent per pupil formula increase and a slight increase in the number of pupils. Intergovernmental aid increased due to additional grants to cities and counties for general aid while the increase in higher education was due to additional grants to the University of Minnesota and the Office of Higher Education (component units).

Even though medical assistance expenditures increased, the General Fund expenditures remained consistent due to the shift of a portion of medical assistance expenditures to the Health Care Access Fund (special revenue fund). These expenditures were partially offset by an increase in federal revenue for the federal government's share of these expenditures as well as the additional federal grants for the Children's Health Insurance Program.

Proprietary Funds – Enterprise and Internal Service Funds

The statements for proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Enterprise Funds

The state's enterprise funds are included in the Business-type Activities column of the Statement of Activities. Enterprise funds net position increased by $293 million during the current year. This primarily resulted from a $118 million increase in net position of the State Colleges and Universities Fund and a $61 million increase in net position of the Unemployment Insurance Fund. For further discussion, see the Government-wide Financial Analysis – Business-type Activities section.

Internal Service Funds

The state's internal service funds are included in the Governmental Activities column of the Statement of Activities; however, eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once in the function for which the expenses were made.

The implementation of GASB 68, "Accounting and Financial Reporting for Pensions," which required the recording of the net pension liability and the deferred inflows and outflows of resources associated with pensions, has caused many of the nonmajor enterprise and internal services funds to end fiscal year in a deficit net position. The actuarially determined amounts are likely to vary significantly from year to year and are managed by the retirement systems and state Legislature to ensure the defined benefit plans are adequately funded to pay plan benefits to employees participating as they become due. For these reasons, the state does not include the pension-related liabilities or deferred inflow and outflows of resources in the rate-setting process for managing these funds as long as the funds are contributing the statutory required contributions. The amounts will continue to be monitored by the retirement systems administering these plans and the state Legislature.

General Fund Budgetary Highlights

Several significant economic forecast and budget actions occurred prior to and during fiscal year 2016. These are material to understanding changes in General Fund balances that occurred in fiscal year 2016. Both the Minnesota State Constitution (Article XI, section 6) and Minnesota Statutes, Section 16A.152, require that the budget be balanced for the biennium. The following highlights material actions taken by the state Legislature and the Governor affecting fiscal year 2016.

Actions Establishing the Fiscal Year 2016 Budget

The budget for state fiscal year 2016 was adopted in May and June 2015. During the 2015 legislative session, the February 2015 Budget and Economic Forecast increased the projected budget balance for the 2016-17 biennium from $1.0 billion to $1.867 billion. General Fund revenues for 2016-17 biennium were forecast to be $44.3 billion and projected current law spending was expected to be $41.1 billion. Legislative actions during the 2015 regular and special sessions reduced the projected balance by $1.002 billion to $865 million. Legislative changes included $705 million in new spending, $132 million in higher revenue and transfers in, and $429 million in reduced resources carried forward from the 2014-15 biennium due to changes enacted impacting that budget period.

Changes to General Fund revenues included $526 million in new spending in E-12 education, largely due to 2 percent annual increase to the basic education formula, $174 million increase in higher education spending, $115 million higher spending for the courts and public safety, and a $51 million increase in economic development. The spending increases were offset by a $291 spending decrease in health and human services largely due to a one-time cost shift to the Health Care Access Fund. Gains in resources included a transfer-in from the Closed Landfill Investment account of $63 million and minor tax changes.

After the 2015 legislative session, the enacted budget for fiscal year 2016 included $1.421 billion in carry forward from fiscal year 2015, $20.893 billion in General Fund revenues, $20.500 billion in General Fund spending, $1.344 billion in cash and budgetary reserves, $14 million in a stadium reserve account, and a $456 million ending budgetary balance.

Budget and Forecast Actions Impacting Fiscal Year 2016

The November 2015 Budget and Economic Forecast improved the budget outlook for the 2016-17 biennium by $1.006 billion. A favorable close to fiscal year 2015 increased resources carried forward by $682 million and the General Fund revenue forecast was increased $90 million. Spending estimates were reduced by $178 million. Statutory reserve allocations transferred $602 million of the balance to the budget reserve and $6 million to the stadium reserve, leaving as unallocated forecast balance of $1.206 billion. Higher sales and corporate income taxes estimates offset a lower individual income taxes forecast. Spending was reduced $178 million due to savings in health and human services spending that were offset partially by increases in other budget areas, including a higher E-12 forecast and statutory transfers to reimburse funds borrowed from other state funds to solve past budget issues.

The February 2016 Budget and Economic Forecast reduced General Fund revenues by $427 million and spending by $129 million. Those changes, offset by an $8 million increase in stadium reserves, reduced the 2016-17 biennium forecast balance by $306 million. The February forecast for fiscal year 2016 reflected $20.890 billion in General Fund revenue, $20.401 billion in General Fund spending, $1.947 billion in cash and budget reserves, $21 million in the stadium reserve, and a $625 million budgetary balance.

The 2016 legislative session ended in May 2016. Changes enacted in the session included $67 million in revenue changes and $239 million in supplemental spending for the 2016-17 biennium. A number of the changes impacted the fiscal year 2016 budget. Revenue changes resulted in less than a $11 million increase for fiscal year 2016. Spending changes were made in health and human services, public safety, environment, agriculture and economic development. Fiscal year 2016 spending increases totaled $4 million. After the legislative changes, fiscal year 2016 General Fund revenues were estimated to be

$20.901 billion. Fiscal year 2016 General Fund expenditures were projected to be $20.405 billion. The legislature made no reserve changes in the 2016 legislative session.

Fiscal year 2016 officially closed in August 2016. Actual revenues for fiscal year 2016 were $21.151 billion, $258 million higher than end of session estimates, including $193 million in higher tax collections. Spending for fiscal year 2016 was $20.151 billion, $245 million below previous estimates; however, $187 million of unspent appropriations in fiscal year 2016 were authorized to carryforward into fiscal year 2017. The budgetary balance for fiscal year 2016 was $946 million, $315 million higher than prior estimates.

Budget and GAAP Based Financial Outlook

Minnesota budgets and manages its financial affairs on a budgetary basis, which primarily uses a cash basis of accounting. Revenues are recorded when received and expenditures are recorded when the payments are made, with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. GAAP requires that the modified accrual basis of accounting be used to prepare governmental fund statements. The modified accrual basis of accounting recognizes revenues when they become both measureable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Expenditures are recognized when a liability occurs.

On a budgetary basis, the state's General Fund ended fiscal year 2016 with a balance of $969 million. On a GAAP basis, the General Fund reported a balance of $3.047 billion for fiscal year 2016, a difference of $2.078 billion from the budgetary General Fund balance. The difference between the General Fund budgetary and GAAP fund balance results from two primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. Second, several funds are included in the GAAP fund balance which are not included in the budgetary fund balance. These additional funds reported a fund balance of $1.423 billion. The difference between the GAAP basis and budgetary basis fund balance of the General Fund, excluding these additional funds not reported in the budgetary fund balance, was $655 million. Additional information on the differences between the budgetary basis and the GAAP basis for the General Fund is included in Note 18 – Budgetary Basis vs. GAAP of the notes to the financial statements.

In the November 2016 forecast, Minnesota's budget outlook improved from previous estimates despite a weaker economic outlook. After a statutory allocation of $334 million to the budget reserve, the fiscal year 2016-17 forecast balance is $678 million, a decrease of $51 million from the end of session. Forecast revenues for the biennium increased $41 million, while forecast spending decreased $245 million. A net increase in the stadium reserve reserves reduced the bottom line by an additional $3 million.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2016, was $22.0 billion, less accumulated depreciation of $3.7 billion, resulting in a net book value of $18.3 billion. This investment in capital assets includes land, buildings, construction and development in progress, infrastructure, easements, art and historical treasures, internally generated computer software, and equipment. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature.

Capital Assets
June 30, 2016, and 2015
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Capital Assets not Depreciated:						
Land	$ 2,569,638	$ 2,483,327	$ 92,412	$ 92,020	$ 2,662,050	$ 2,575,347
Buildings, Structures, Improvements	41,443	41,443	-	-	41,443	41,443
Construction in Progress	432,217	323,523	173,728	223,113	605,945	546,636
Development in Progress	60,034	124,708	-	-	60,034	124,708
Infrastructure	10,179,574	9,552,323	-	-	10,179,574	9,552,323
Easements	313,115	284,543	-	-	313,115	284,543
Art and Historical Treasures	7,168	7,223	-	-	7,168	7,223
Total Capital Assets not Depreciated	$ 13,603,189	$ 12,817,090	$ 266,140	$ 315,133	$ 13,869,329	$ 13,132,223
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 3,095,685	$ 2,939,505	$ 3,459,873	$ 3,264,430	$ 6,555,558	$ 6,203,935
Infrastructure	312,998	284,274	95	95	313,093	284,369
Internally Generated Computer Software	164,829	98,370	55,049	12,244	219,878	110,614
Easements	5,789	5,433	-	-	5,789	5,433
Library Collections	-	-	41,146	42,519	41,146	42,519
Equipment, Furniture, Fixtures	747,839	700,685	321,818	358,600	1,069,657	1,059,285
Total Capital Assets Depreciated	$ 4,327,140	$ 4,028,267	$ 3,877,981	$ 3,677,888	$ 8,205,121	$ 7,706,155
Less: Accumulated Depreciation	1,865,918	1,721,994	1,873,822	1,805,125	3,739,740	3,527,119
Capital Assets Net of Depreciation	$ 2,461,222	$ 2,306,273	$ 2,004,159	$ 1,872,763	$ 4,465,381	$ 4,179,036
Total	$ 16,064,411	$ 15,123,363	$ 2,270,299	$ 2,187,896	$ 18,334,710	$ 17,311,259

The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 3,000 bridges that are maintained by the Minnesota Department of Transportation (MnDOT).

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment, completed for calendar year 2015, indicated that the average PQI for principal arterial pavement was 3.4 and 3.3 for all other pavements. The state has maintained a stable condition of pavement over the past several years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2015, indicated that 95 percent of principal arterial system bridges and 94 percent of all other system bridges were in fair to good condition. The state has also maintained a stable condition of bridges over the past several years.

During the current year, expenditures for maintenance of pavement were higher than budget due primarily to a significant number of projects for pavement maintenance being completed earlier than anticipated due to favorable weather conditions and contractors completing work ahead of schedule.

Additional information on the state's capital assets and infrastructure under the modified approach is included in Note 6 – Capital Assets of the notes to the financial statements and in the required supplementary information, respectively.

Debt Administration

The authority of the state to incur general obligation debt is described in Article XI, Sections 5 and 7, of the state's constitution. General obligation bonds, issued by the state, are backed by the full faith, credit, and taxing powers of the state.

The state's general obligation bonds were rated on June 30, 2016, as follows:

- AA+ by Fitch Ratings (July 2016 upgraded to AAA)
- Aa1 by Moody's Investors Service
- AA+ by Standard & Poor's (August 2015 improved outlook to positive)

The Legislature also statutorily authorizes other types of debt.

The state issues revenue bonds, which are payable solely from rentals, revenues, and other income, and charges and monies that were pledged for repayment.

The state issued state General Fund appropriation refunding bonds to refund bonds issued by a blended component unit, Tobacco Securitization Authority, which no longer exists. The state also issued state General Fund appropriation bonds to finance the state and City of Minneapolis shares of the costs of a professional football stadium project.

The Certificates of Participation were issued by the state to finance the statewide systems, integrated tax system, and the legislative office facility.

Outstanding Bonded Debt and Unamortized Premium
June 30, 2016, and 2015
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General Obligation	$ 6,277,717	$ 6,196,548	$ 235,863	$ 242,467	$ 6,513,580	$ 6,439,015
Revenue	41,855	44,260	414,445	441,760	456,300	486,020
State General Fund Appropriation Bonds	1,000,675	1,038,635	-	-	1,000,675	1,038,635
Certificate of Participation	103,020	111,930	-	-	103,020	111,930
Total	$ 7,423,267	$ 7,391,373	$ 650,308	$ 684,227	$ 8,073,575	$ 8,075,600

During fiscal year 2016, the state issued the following bonds:

- $368.2 million in general obligation state various purpose bonds
- $310.0 million in general obligation state trunk highway bonds
- $7.2 million in general obligation Rural Finance Authority bonds
- $376.7 million in general obligation state various purpose refunding bonds
- $14.9 million in general obligation state trunk highway refunding bonds

Additional information on the state's long-term debt obligations is located in Note 12 – General Long-Term Liabilities – Primary Government in the notes to the financial statements.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives.

Please contact us if you have questions about this report or to request additional financial information.

Minnesota Management and Budget
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota, 55155-1489
651-201-8000
https://www.mn.gov/mmb/

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STATEMENT OF NET POSITION
JUNE 30, 2016
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 9,245,088	$ 2,681,321	$ 11,926,409	$ 1,323,460
Investments	2,279,104	24,348	2,303,452	827,326
Accounts Receivable	2,546,253	397,339	2,943,592	532,570
Due from Component Units	12,753	-	12,753	-
Due from Primary Government	-	-	-	102,714
Accrued Investment/Interest Income	26,335	-	26,335	32,660
Federal Aid Receivable	1,104,742	25,637	1,130,379	3,325
Inventories	42,321	25,912	68,233	52,363
Loans and Notes Receivable	62,705	4,473	67,178	238,957
Internal Balances	953	(953)	-	-
Other Assets	14,957	4,266	19,223	36,208
Total Current Assets	$ 15,335,211	$ 3,162,343	$ 18,497,554	$ 3,149,583
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 81,644	$ 81,644	$ 967,764
Investments-Restricted	-	-	-	1,888,959
Accounts Receivable-Restricted	-	-	-	16,290
Due from Primary Government-Restricted	-	-	-	4,021
Other Assets-Restricted	-	296	296	-
Due from Primary Government	-	-	-	5,491
Due from Component Units	52,808	-	52,808	-
Investments	-	-	-	4,549,922
Accounts Receivable	534,242	1,499	535,741	469,540
Loans and Notes Receivable	162,909	24,028	186,937	3,592,412
Depreciable Capital Assets (Net)	2,461,222	2,004,159	4,465,381	6,113,231
Nondepreciable Capital Assets	3,423,615	266,140	3,689,755	2,067,534
Infrastructure (Not depreciated)	10,179,574	-	10,179,574	-
Other Assets	1,148	-	1,148	26,151
Total Noncurrent Assets	$ 16,815,518	$ 2,377,766	$ 19,193,284	$ 19,701,315
Total Assets	$ 32,150,729	$ 5,540,109	$ 37,690,838	$ 22,850,898
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated Decrease in Fair Value of Hedging Derivatives	$ -	$ -	$ -	$ 11,764
Bond Refunding	-	245	245	18,452
Deferred Pension Outflows	666,160	74,775	740,935	79,955
Deferred Derivative Outflows	-	-	-	10,661
Total Deferred Outflows of Resources	$ 666,160	$ 75,020	$ 741,180	$ 120,832
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 4,607,069	$ 279,908	$ 4,886,977	$ 448,992
Due to Component Units	63,293	6	63,299	-
Due to Primary Government	-	-	-	16,762
Unearned Revenue	100,727	59,850	160,577	102,892
Accrued Interest Payable	116,794	402	117,196	61,189
Bonds and Notes Payable	605,871	51,472	657,343	680,405
Capital Leases Payable	8,973	4,275	13,248	4,930
Certificates of Participation Payable	9,900	-	9,900	-
Claims Payable	159,381	12,838	172,219	94,823
Compensated Absences Payable	39,547	18,745	58,292	207,784
Other Liabilities	-	13,112	13,112	1,763
Total Current Liabilities	$ 5,711,555	$ 440,608	$ 6,152,163	$ 1,619,540
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 113,554
Unearned Revenue-Restricted	-	-	-	87,999
Accrued Interest Payable-Restricted	-	-	-	12,778
Due to Primary Government	-	-	-	52,808
Unearned Revenue	178,086	393	178,479	61
Interest Rate Swap Agreements	-	-	-	11,764
Bonds and Notes Payable	7,632,218	638,330	8,270,548	6,178,932
Due to Component Units	5,491	-	5,491	-
Capital Leases Payable	80,881	17,360	98,241	21,787
Certificates of Participation Payable	105,970	-	105,970	-
Claims Payable	568,253	2,052	570,305	560,479
Compensated Absences Payable	266,160	134,003	400,163	33,287
Other Postemployment Benefits	292,616	43,826	336,442	225,767
Net Pension Liability	3,158,316	416,281	3,574,597	408,879
Funds Held in Trust	-	-	-	359,848
Other Liabilities	-	28,962	28,962	96,487
Total Noncurrent Liabilities	$ 12,287,991	$ 1,281,207	$ 13,569,198	$ 8,164,430
Total Liabilities	$ 17,999,546	$ 1,721,815	$ 19,721,361	$ 9,783,970

STATEMENT OF NET POSITION
JUNE 30, 2016
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
DEFERRED INFLOWS OF RESOURCES				
Bond Refunding	$ 47,262	$ 2,170	$ 49,432	$ 1,915
Capital Lease Restructuring	16,157	-	16,157	-
Deferred Revenue	476,575	-	476,575	22,453
Deferred Pension Inflows	1,288,049	215,167	1,503,216	494,359
Total Deferred Inflows of Resources	$ 1,828,043	$ 217,337	$ 2,045,380	$ 518,727
NET POSITION				
Net Investment in Capital Assets	$ 12,317,260	$ 1,620,835	$ 13,938,095	$ 5,443,598
Restricted to:				
Improve Agricultural, Environmental and Energy Resources	$ 1,598,909	$ -	$ 1,598,909	$ -
Enhance Arts and Culture	17,906	-	17,906	-
Acquire, Maintain, and Improve Land and Buildings	-	431	431	-
Retire Indebtedness	967,007	122,202	1,089,209	-
Develop Economy and Workforce	160,246	2,150	162,396	-
Enhance E-12 Education	59,799	-	59,799	-
Enhance State Government	41,153	-	41,153	-
Enhance Health and Human Services	9,905	-	9,905	-
Enhance Higher Education	7	84,619	84,626	-
Enhance 911 Services and Increase Safety	44,855	23,676	68,531	-
School Aid-Expendable	7,568	-	7,568	-
School Aid-Nonexpendable	1,233,194	-	1,233,194	-
Construct Highways and Improve Infrastructure	1,492,805	-	1,492,805	-
Unemployment Benefits	-	1,840,708	1,840,708	-
Other Purposes	-	47,186	47,186	-
Component Units	-	-	-	6,716,357
Total Restricted	$ 5,633,354	$ 2,120,972	$ 7,754,326	$ 6,716,357
Unrestricted	$ (4,961,314)	$ (65,830)	$ (5,027,144)	$ 509,078
Total Net Position	$ 12,989,300	$ 3,675,977	$ 16,665,277	$ 12,669,033

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION – PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
Agricultural, Environmental and Energy Resources	$ 1,023,349	$ 355,269	$ 248,261	$ 20,107	$ (399,712)		$ (399,712)	
Economic and Workforce Development	658,893	58,939	218,884	-	(381,070)		(381,070)	
General Education	9,434,928	22,646	819,150	-	(8,593,132)		(8,593,132)	
General Government	1,151,786	327,487	110,152	-	(714,147)		(714,147)	
Health and Human Services	15,590,493	416,068	8,716,931	35	(6,457,459)		(6,457,459)	
Higher Education	976,351	20	45	-	(976,286)		(976,286)	
Intergovernment Aid	1,626,833	-	-	-	(1,626,833)		(1,626,833)	
Public Safety and Corrections	1,005,349	159,549	148,531	-	(697,269)		(697,269)	
Transportation	2,814,456	114,667	670,421	173,914	(1,855,454)		(1,855,454)	
Interest	305,017	-	-	-	(305,017)		(305,017)	
Total Governmental Activities	$ 34,587,455	$ 1,454,645	$ 10,932,375	$ 194,056	$ (22,006,379)		$ (22,006,379)	
Business-type Activities:								
State Colleges and Universities	$ 1,910,435	$ 835,447	$ 447,973	$ -		$ (627,015)	$ (627,015)	
Unemployment Insurance	801,670	820,322	7,533	-		26,185	26,185	
Lottery	446,860	592,806	-	-		145,946	145,946	
Other	383,012	389,807	26,057	-		32,852	32,852	
Total Business-type Activities	$ 3,541,977	$ 2,638,382	$ 481,563	$ -		$ (422,032)	$ (422,032)	
Total Primary Government	$ 38,129,432	$ 4,093,027	$ 11,413,938	$ 194,056	$ (22,006,379)	$ (422,032)	$ (22,428,411)	
Component Units:								
University of Minnesota	$ 3,819,989	$ 1,521,615	$ 978,636	$ 99,478				$ (1,220,260)
Metropolitan Council	973,624	357,862	441,095	236,633				61,966
Housing Finance	382,905	173,146	195,426	-				(14,333)
Others	425,962	150,214	52,727	511,884				288,863
Total Component Units	$ 5,602,480	$ 2,202,837	$ 1,667,884	$ 847,995				$ (883,764)
General Revenues:								
Taxes:								
Individual Income Taxes					$ 10,969,019	$ -	$ 10,969,019	$ -
Corporate Income Taxes					1,361,681	-	1,361,681	-
Sales Taxes					5,534,870	-	5,534,870	-
Property Taxes					846,216	-	846,216	-
Motor Vehicle Taxes					1,428,134	-	1,428,134	-
Fuel Taxes					904,424	-	904,424	-
Other Taxes					2,801,323	-	2,801,323	81,121
Tobacco Settlement					170,179	-	170,179	-
Unallocated Investment/Interest Income					35,289	44,919	80,208	65,746
Other Revenues					50,574	8,067	58,641	612,711
State Grants Not Restricted					-	-	-	990,168
Transfers					(661,843)	661,843	-	-
Total General Revenues and Transfers					$ 23,439,866	$ 714,829	$ 24,154,695	$ 1,749,746
Change in Net Position					$ 1,433,487	$ 292,797	$ 1,726,284	$ 865,982
Net Position, Beginning, as Reported					$ 11,469,748	$ 3,383,180	$ 14,852,928	$ 11,818,504
Prior Period Adjustments					86,065	-	86,065	-
Change in Accounting Principle					-	-	-	(15,453)
Net Position, Beginning, as Restated					$ 11,555,813	$ 3,383,180	$ 14,938,993	$ 11,803,051
Net Position, Ending					$ 12,989,300	$ 3,675,977	$ 16,665,277	$ 12,669,033

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 4,273,104	$ 68,371	$ 4,616,760	$ 8,958,235
Investments	870,843	-	1,408,261	2,279,104
Accounts Receivable	2,272,745	395,564	406,591	3,074,900
Interfund Receivables	87,242	3,283	112,818	203,343
Due from Component Unit	-	-	65,561	65,561
Accrued Investment/Interest Income	20,944	-	5,391	26,335
Federal Aid Receivable	-	1,040,721	64,021	1,104,742
Inventories	-	-	42,163	42,163
Loans and Notes Receivable	99,965	4,446	121,203	225,614
Investment in Land	-	-	15,958	15,958
Total Assets	$ 7,624,843	$ 1,512,385	$ 6,858,727	$ 15,995,955
LIABILITIES				
Liabilities:				
Accounts Payable	$ 2,657,030	$ 1,435,953	$ 569,206	$ 4,662,189
Interfund Payables	72,795	1,173	66,940	140,908
Due to Component Unit	26,614	5,183	29,170	60,967
Unearned Revenue	177,947	59,333	3,114	240,394
Total Liabilities	$ 2,934,386	$ 1,501,642	$ 668,430	$ 5,104,458
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	$ 1,643,366	$ -	$ 135,609	$ 1,778,975
Total Deferred Inflows of Resources	$ 1,643,366	$ -	$ 135,609	$ 1,778,975
FUND BALANCES				
Fund Balances:				
Nonspendable	$ 929,967	$ -	$ 1,275,357	$ 2,205,324
Restricted	180,272	10,743	3,471,393	3,662,408
Committed	-	-	709,828	709,828
Assigned	365,054	-	598,110	963,164
Unassigned	1,571,798	-	-	1,571,798
Total Fund Balances	$ 3,047,091	$ 10,743	$ 6,054,688	$ 9,112,522
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 7,624,843	$ 1,512,385	$ 6,858,727	$ 15,995,955

The notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 9,112,522
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Infrastructure	$ 10,179,574	
Nondepreciable Capital Assets	3,393,879	
Depreciable Capital Assets	4,183,394	
Accumulated Depreciation	(1,779,280)	
		15,977,567
Net effect of state revenues that will be collected after year-end but not available to pay for current period expenditures and refunds of revenues that will be paid after year-end.		1,302,400
Deferred Inflows resulting from the refunding of debt and restructuring of capital leases included in the Statement of Net Position.		(63,419)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		1,642
Deferred pension outflows of $652,750 and inflows of $(1,177,123) resulting primarily from pension actuarial gains and losses to be amortized are included in the Statement of Net Position.		(524,373)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Accrued Interest Payable	$ (116,768)	
General Obligation Bonds Payable	(6,277,717)	
State General Fund Appropriation Bonds Payable	(1,000,675)	
Revenue Bonds Payable	(41,855)	
Bond Premium Payable	(894,505)	
Due to Component Units	(7,817)	
Capital Leases Payable	(89,854)	
Certificate of Participation Payable	(103,020)	
Certificate of Participation Premium Payable	(12,850)	
Claims Payable	(647,724)	
Compensated Absences Payable	(279,321)	
Net Other Post-Employment Benefits	(291,522)	
Net Pension Liability	(3,053,411)	
		(12,817,039)
Net Position of Governmental Activities		$ 12,989,300

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 11,013,385	$ -	$ -	$ 11,013,385
Corporate Income Taxes	1,414,531	-	-	1,414,531
Sales Taxes	5,217,805	-	341,065	5,558,870
Property Taxes	855,032	-	-	855,032
Motor Vehicle Taxes	286,219	-	1,141,781	1,428,000
Fuel Taxes	-	-	904,475	904,475
Other Taxes	1,862,792	-	904,715	2,767,507
Tobacco Settlement	171,238	-	-	171,238
Federal Revenues	3,053	10,156,113	591,847	10,751,013
Licenses and Fees	222,306	5,210	363,183	590,699
Departmental Services	197,392	3,922	203,618	404,932
Investment/Interest Income	62,005	635	100,953	163,593
Other Revenues	249,380	48,169	396,547	694,096
Net Revenues	$ 21,555,138	$ 10,214,049	$ 4,948,184	$ 36,717,371
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources	$ 251,055	$ 159,319	$ 608,539	$ 1,018,913
Economic and Workforce Development	218,708	215,447	286,185	720,340
General Education	8,600,102	754,656	83,768	9,438,526
General Government	719,083	9,296	293,714	1,022,093
Health and Human Services	5,956,678	8,515,806	1,122,796	15,595,280
Higher Education	899,091	-	77,296	976,387
Intergovernmental Aid	1,626,221	-	612	1,626,833
Public Safety and Corrections	644,486	112,901	217,477	974,864
Transportation	407,206	260,179	2,173,495	2,840,880
Total Current Expenditures	$ 19,322,630	$ 10,027,604	$ 4,863,882	$ 34,214,116
Capital Outlay	31,209	116,063	1,026,717	1,173,989
Debt Service	25,279	-	1,015,514	1,040,793
Total Expenditures	$ 19,379,118	$ 10,143,667	$ 6,906,113	$ 36,428,898
Excess of Revenues Over (Under) Expenditures	$ 2,176,020	$ 70,382	$ (1,957,929)	$ 288,473
Other Financing Sources (Uses):				
Bond Issuance	$ 4,672	$ -	$ 666,233	$ 670,905
Issuance of Refunding Bonds	-	-	391,555	391,555
Payment to Refunded Bonds Escrow Agent	-	-	(391,555)	(391,555)
Bond Issue Premium	819	-	162,599	163,418
Transfers-In	388,381	1,665	1,160,824	1,550,870
Transfers-Out	(1,678,689)	(61,428)	(454,520)	(2,194,637)
Net Other Financing Sources (Uses)	$ (1,284,817)	$ (59,763)	$ 1,535,136	$ 190,556
Net Change in Fund Balances	$ 891,203	$ 10,619	$ (422,793)	$ 479,029
Fund Balances, Beginning, as Reported	$ 2,122,181	$ 124	$ 6,472,781	$ 8,595,086
Prior Period Adjustment	33,707	-	4,700	38,407
Fund Balances, Beginning, as Restated	$ 2,155,888	$ 124	$ 6,477,481	$ 8,633,493
Fund Balances, Ending	$ 3,047,091	$ 10,743	$ 6,054,688	$ 9,112,522

The notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$ 479,029
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation of $170,940 in the current period.	1,003,049
Governmental funds report the proceeds from the sale of capital assets as increases in financial resources. However, in the Statement of Activities, only the gain or loss on the sale and the fair market value of donated capital assets are reported.	(73,710)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds activities is reported in governmental activities, but not included in governmental funds.	(4,131)
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	(82,189)
Bond and loan proceeds provide current financial resources to governmental funds; however, issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Position.	(1,225,878)
Net changes due to the additions and amortization of deferred inflows related to the refunding of debt and restructuring of capital leases reported in the Statement of Activities.	(6,634)
Net changes in the net pension liability and the additions and amortization of deferred inflows and outflows related to pensions is reported in the Statement of Activities but not included in governmental funds.	215,591
Repayment of bonds, loans, and capital leases are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	1,138,520
Net changes in expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.	(10,160)
Change in Net Position of Governmental Activities	$ 1,433,487

The notes are an integral part of the financial statements.

MAJOR GOVERNMENTAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS YEAR ENDED JUNE 30, 2016 (IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 10,735,768	$ 10,715,600	$ 10,738,906
Corporate Income Taxes	1,298,850	1,324,495	1,473,097
Sales Taxes	5,306,106	5,211,284	5,209,777
Property Taxes	841,883	841,080	853,780
Motor Vehicle Taxes	650	650	671
Other Taxes	1,767,980	1,824,024	1,834,237
Tobacco Settlements	162,370	162,336	171,238
Licenses and Fees	206,697	208,871	217,491
Departmental Services	92,806	87,392	88,522
Investment/Interest Income	10,051	13,051	18,946
Other Revenues	294,037	329,953	336,780
Net Revenues	$ 20,717,198	$ 20,718,736	$ 20,943,445
Expenditures:			
Agricultural, Environmental and Energy Resources	$ 202,816	$ 201,709	$ 185,541
Economic and Workforce Development	194,515	194,740	186,826
General Education	8,526,142	8,574,078	8,565,650
General Government	817,518	817,526	769,481
Health and Human Services	5,868,907	5,585,687	5,489,292
Higher Education	856,880	857,105	854,422
Intergovernment Aid	1,622,878	1,622,878	1,622,866
Public Safety and Corrections	669,010	673,405	656,778
Transportation	116,906	116,906	113,985
Total Expenditures	$ 18,875,572	$ 18,644,034	$ 18,444,841
Excess of Revenues Over (Under) Expenditures	$ 1,841,626	$ 2,074,702	$ 2,498,604
Other Financing Sources (Uses):			
Transfers-In	$ 223,098	$ 220,970	$ 218,174
Transfers-Out	(1,780,197)	(1,780,197)	(1,780,197)
Net Other Financing Sources (Uses)	$ (1,557,099)	$ (1,559,227)	$ (1,562,023)
Net Change in Fund Balances	$ 284,527	$ 515,475	$ 936,581
Fund Balances, Beginning, as Reported	$ 2,134,911	$ 2,134,911	$ 2,134,911
Prior Period Adjustments	-	-	76,193
Fund Balances, Beginning, as Restated	$ 2,134,911	$ 2,134,911	$ 2,211,104
Budgetary Fund Balances, Ending	$ 2,419,438	$ 2,650,386	$ 3,147,685
Less: Appropriation Carryover	-	-	196,988
Less: Reserved for Long-Term Receivables	-	-	12,950
Less: Budgetary Reserve	-	-	1,969,057
Unassigned Fund Balance, Ending	$ 2,419,438	$ 2,650,386	$ 968,690

The notes are an integral part of the financial statements.

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PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 907,022	$ 1,596,421	$ 177,878	$ 2,681,321	$ 286,853
Investments	24,348	-	-	24,348	-
Accounts Receivable	61,829	302,783	32,727	397,339	110,443
Interfund Receivables	31,991	-	2,775	34,766	-
Federal Aid Receivable	18,271	725	6,641	25,637	-
Inventories	16,653	-	9,259	25,912	158
Loans and Notes Receivable	4,473	-	-	4,473	-
Prepaid Expenses	3,012	-	1,183	4,195	14,957
Other Assets	-	-	71	71	-
Total Current Assets	$ 1,067,599	$ 1,899,929	$ 230,534	$ 3,198,062	$ 412,411
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 81,644	$ -	$ -	$ 81,644	$ -
Other Assets-Restricted	296	-	-	296	-
Accounts Receivable	-	-	1,499	1,499	-
Loans and Notes Receivable	24,028	-	-	24,028	-
Depreciable Capital Assets (Net)	1,823,390	-	180,769	2,004,159	57,108
Nondepreciable Capital Assets	249,454	-	16,686	266,140	13,778
Prepaid Expenses	-	-	-	-	1,148
Total Noncurrent Assets	$ 2,178,812	$ -	$ 198,954	$ 2,377,766	$ 72,034
Total Assets	$ 3,246,411	$ 1,899,929	$ 429,488	$ 5,575,828	$ 484,445
DEFERRED OUTFLOWS OF RESOURCES					
Bond Refunding	$ 245	$ -	$ -	$ 245	$ -
Deferred Pension Outflows	66,678	-	8,097	74,775	13,410
Total Deferred Outflows of Resources	$ 66,923	$ -	$ 8,097	$ 75,020	$ 13,410
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 177,959	$ 24,761	$ 77,188	$ 279,908	$ 51,193
Interfund Payables	-	14,885	20,834	35,719	60,017
Due to Component Unit	-	-	6	6	-
Unearned Revenue	37,173	19,575	3,102	59,850	38,419
Accrued Interest Payable	-	-	402	402	26
Bonds and Notes Payable	37,937	-	13,535	51,472	11,054
Capital Leases Payable	4,275	-	-	4,275	-
Claims Payable	2,410	-	10,428	12,838	79,910
Compensated Absences Payable	16,657	-	2,088	18,745	2,840
Other Liabilities	13,112	-	-	13,112	-
Total Current Liabilities	$ 289,523	$ 59,221	$ 127,583	$ 476,327	$ 243,459
Noncurrent Liabilities:					
Unearned Revenue	$ -	$ -	$ 393	$ 393	$ -
Bonds and Notes Payable	541,585	-	96,745	638,330	12,283
Capital Leases Payable	17,360	-	-	17,360	-
Claims Payable	2,052	-	-	2,052	-
Compensated Absences Payable	122,290	-	11,713	134,003	23,546
Other Postemployment Benefits	40,938	-	2,888	43,826	1,094
Net Pension Liability	364,763	-	51,518	416,281	104,905
Other Liabilities	28,962	-	-	28,962	-
Total Noncurrent Liabilities	$ 1,117,950	$ -	$ 163,257	$ 1,281,207	$ 141,828
Total Liabilities	$ 1,407,473	$ 59,221	$ 290,840	$ 1,757,534	$ 385,287
DEFERRED INFLOWS OF RESOURCES					
Bond Refunding	$ 2,170	$ -	$ -	$ 2,170	$ -
Deferred Pension Inflows	176,354	-	38,813	215,167	110,926
Total Deferred Inflows of Resources	$ 178,524	$ -	$ 38,813	$ 217,337	$ 110,926
NET POSITION					
Net Investment in Capital Assets	$ 1,520,085	$ -	$ 100,750	$ 1,620,835	$ 47,549
Restricted for:					
Bond Covenants	$ 73,457	$ -	$ -	$ 73,457	$ -
Capital Projects	431	-	-	431	-
Debt Service	48,745	-	-	48,745	-
Economic and Workforce Development	-	-	2,150	2,150	-
Higher Education	84,619	-	-	84,619	-
Public Safety and Corrections	-	-	23,676	23,676	-
Unemployment Benefits	-	1,840,708	-	1,840,708	-
Other Purposes	-	-	47,186	47,186	-
Total Restricted	$ 207,252	$ 1,840,708	$ 73,012	$ 2,120,972	$ -
Unrestricted	$ -	$ -	$ (65,830)	$ (65,830)	$ (45,907)
Total Net Position	$ 1,727,337	$ 1,840,708	$ 107,932	$ 3,675,977	$ 1,642

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 709,858	$ -	$ -	$ 709,858	$ -
Restricted Student Payments, Net	113,964	-	-	113,964	-
Net Sales	-	-	850,736	850,736	442,674
Insurance Premiums	-	812,613	108,967	921,580	836,578
Other Income	11,625	7,709	22,909	42,243	8,944
Total Operating Revenues	$ 835,447	$ 820,322	$ 982,612	$ 2,638,381	$ 1,288,196
Less: Cost of Goods Sold	-	-	444,203	444,203	-
Gross Margin	$ 835,447	$ 820,322	$ 538,409	$ 2,194,178	$ 1,288,196
Operating Expenses:					
Purchased Services	$ 231,564	$ -	$ 86,441	$ 318,005	$ 227,176
Salaries and Fringe Benefits	1,276,821	-	110,056	1,386,877	202,021
Student Financial Aid	38,451	-	-	38,451	-
Unemployment Benefits	-	791,536	-	791,536	-
Claims	-	-	98,505	98,505	771,553
Depreciation and Amortization	119,557	-	20,456	140,013	15,394
Supplies and Materials	138,000	-	7,368	145,368	17,539
Repairs and Maintenance	26,853	-	1,558	28,411	15,841
Indirect Costs	-	-	5,543	5,543	2,501
Other Expenses	43,694	-	9,872	53,566	5,286
Total Operating Expenses	$ 1,874,940	$ 791,536	$ 339,799	$ 3,006,275	$ 1,257,311
Operating Income (Loss)	$ (1,039,493)	$ 28,786	$ 198,610	$ (812,097)	$ 30,885
Nonoperating Revenues (Expenses):					
Investment Income	$ 7,735	$ 36,481	$ 704	$ 44,920	$ 1,995
Federal Grants	317,606	-	26,057	343,663	-
Private Grants	35,842	-	-	35,842	-
Grants and Subsidies	94,525	7,533	-	102,058	-
Other Nonoperating Revenues	-	-	8,074	8,074	-
Interest and Financing Costs	(23,618)	-	(4,148)	(27,766)	(625)
Grants, Aids and Subsidies	(11,877)	(10,134)	(21,010)	(43,021)	-
Other Nonoperating Expenses	-	-	(20,711)	(20,711)	(6,984)
Gain (Loss) on Disposal of Capital Assets	1,035	-	(1,043)	(8)	793
Total Nonoperating Revenues (Expenses)	$ 421,248	$ 33,880	$ (12,077)	$ 443,051	$ (4,821)
Income (Loss) Before Transfers and Contributions	$ (618,245)	$ 62,666	$ 186,533	$ (369,046)	$ 26,064
Capital Contributions	59,367	-	40,866	100,233	-
Transfers-In	676,850	-	32,384	709,234	55
Transfers-Out	-	(1,261)	(146,363)	(147,624)	(30,250)
Change in Net Position	$ 117,972	$ 61,405	$ 113,420	$ 292,797	$ (4,131)
Net Position, Beginning, as Reported	$ 1,609,365	$ 1,779,303	$ (5,488)	$ 3,383,180	$ 5,773
Net Position, Ending	$ 1,727,337	$ 1,840,708	$ 107,932	$ 3,675,977	$ 1,642

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 827,731	$ 851,992	$ 960,989	$ 2,640,712	$ 1,262,095
Receipts from Other Revenues	-	-	33,307	33,307	8,423
Receipts from Repayment of Program Loans	4,696	-	-	4,696	-
Financial Aid Disbursements	(39,654)	-	-	(39,654)	-
Payments to Claimants	-	(784,017)	(456,445)	(1,240,462)	(779,390)
Payments to Suppliers	(444,897)	-	(146,319)	(591,216)	(258,540)
Payments to Employees	(1,304,038)	-	(161,114)	(1,465,152)	(222,962)
Payments to Others	-	-	(53,034)	(53,034)	(12,923)
Payments of Program Loans	(4,215)	-	-	(4,215)	-
Net Cash Flows from Operating Activities	$ (960,377)	$ 67,975	$ 177,384	$ (715,018)	$ (3,297)
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 437,987	$ 7,174	$ 23,604	$ 468,765	$ -
Grant Disbursements	(12,114)	(9,754)	(18,275)	(40,143)	-
Transfers-In	676,850	-	22,758	699,608	-
Transfers-Out	-	(8,205)	(148,414)	(156,619)	(30,250)
Advances from Other Funds	-	-	9,626	9,626	35,017
Repayment Receipts of Advances to Other Funds	-	-	2,600	2,600	-
Repayment of Advances from Other Funds	-	-	(8,787)	(8,787)	-
Repayment of Bond Principal	-	-	(12,810)	(12,810)	-
Interest Paid	-	-	(5,402)	(5,402)	-
Net Cash Flows from Noncapital Financing Activities	$ 1,102,723	$ (10,785)	$ (135,100)	$ 956,838	$ 4,767
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 39,748	$ -	$ -	$ 39,748	$ -
Investment in Capital Assets	(161,520)	-	(24,316)	(185,836)	(30,798)
Proceeds from Disposal of Capital Assets	3,487	-	204	3,691	3,775
Proceeds from Capital Bonds	17,066	-	-	17,066	-
Proceeds from Loans	1,690	-	-	1,690	11,532
Capital Lease Payments	(4,295)	-	(38)	(4,333)	-
Repayment of Loan Principal	(642)	-	-	(642)	(13,161)
Repayment of Bond Principal	(35,250)	-	(379)	(35,629)	-
Interest Paid	(25,475)	-	(5)	(25,480)	(622)
Net Cash Flows from Capital and Related Financing Activities	$ (165,191)	$ -	$ (24,534)	$ (189,725)	$ (29,274)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 9,120	$ -	$ -	$ 9,120	$ 14,559
Purchase of Investments	(6,941)	-	-	(6,941)	-
Investment Earnings	4,302	36,481	666	41,449	2,112
Net Cash Flows from Investing Activities	$ 6,481	$ 36,481	$ 666	$ 43,628	$ 16,671
Net Increase (Decrease) in Cash and Cash Equivalents	$ (16,364)	$ 93,671	$ 18,416	$ 95,723	$ (11,133)
Cash and Cash Equivalents, Beginning, as Reported	$ 1,005,030	$ 1,502,750	$ 159,462	$ 2,667,242	$ 297,986
Cash and Cash Equivalents, Ending	$ 988,666	$ 1,596,421	$ 177,878	$ 2,762,965	$ 286,853

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	$ (1,039,493)	$ 28,786	$ 198,610	$ (812,097)	$ 30,885
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation and Amortization	$ 119,557	$ -	$ 20,456	$ 140,013	$ 15,394
Miscellaneous Nonoperating Revenues	254	-	8,827	9,081	56
Miscellaneous Nonoperating Expenses	-	-	(24,518)	(24,518)	(6,984)
Loan Principal Repayments	4,696	-	-	4,696	-
Loans Issued	(4,215)	-	-	(4,215)	-
Provision for Loan Defaults	6	-	-	6	-
Loans Forgiven	406	-	-	406	-
Change in Assets, Liabilities, Deferred Outflows and Inflows:					
Accounts Receivable	(5,956)	40,022	6,116	40,182	(24,507)
Inventories	(1,078)	-	278	(800)	80
Other Assets	-	-	291	291	647
Deferred Pension Outflows	(15,938)	-	(1,834)	(17,772)	(1,244)
Accounts Payable	7,551	2,681	16,360	26,592	(2,762)
Claims Payable	-	-	2,052	2,052	(893)
Compensated Absences Payable	1,834	-	15	1,849	14,400
Unearned Revenues	(2,015)	(3,497)	512	(5,000)	5,306
Net Pension Liability	34,137	-	(15,866)	18,271	(5,162)
Other Liabilities	2,797	(17)	1,165	3,945	264
Deferred Pension Inflows	(62,920)	-	(35,080)	(98,000)	(28,777)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 79,116	$ 39,189	$ (21,226)	$ 97,079	$ (34,182)
Net Cash Flows from Operating Activities	$ (960,377)	$ 67,975	$ 177,384	$ (715,018)	$ (3,297)
Noncash Investing, Capital and Financing Activities:					
Transferred Capital Assets from Governmental Activities	$ -	$ -	$ 40,866	$ 40,866	$ -
Bond Premium Amortization	3,342	-	1,240	4,582	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalent Investments	$ 47,862	$ -	$ 133,677
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 2,537,225	$ 58,114	$ -
Investments	64,668,790	810,456	-
Accrued Interest and Dividends	135,792	1,840	-
Securities Trades Receivables (Payables)	(637,915)	(2,538)	-
Total Investment Pool Participation	$ 66,703,892	$ 867,872	$ -
Receivables:			
Accounts Receivable	$ -	$ -	$ 33,499
Interfund Receivables	7,246	-	-
Other Receivables	116,536	-	-
Total Receivables	$ 123,782	$ -	$ 33,499
Securities Lending Collateral	$ 8,366,328	$ 97,208	$ -
Depreciable Capital Assets (Net)	47,856	-	-
Nondepreciable Capital Assets	597	-	-
Total Assets	$ 75,290,317	$ 965,080	$ 167,176
LIABILITIES			
Accounts Payable	$ 26,518	$ -	$ 167,176
Interfund Payables	8,711	-	-
Accrued Expense	4	-	-
Revenue Bonds Payable	16,410	-	-
Bond Interest	12	-	-
Compensated Absences Payable	2,788	-	-
Securities Lending Liabilities	8,366,328	97,208	-
Other Liabilities	2,352	-	-
Total Liabilities	$ 8,423,123	$ 97,208	$ 167,176
NET POSITION			
Net Position Held in Trust for Pension Benefits and Pool Participants	$ 66,867,194	$ 867,872	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 1,259,183	$ -
Member	1,433,099	-
Contributions From Other Sources	9,485	-
Participating Plans	-	36,259
Total Contributions	$ 2,701,767	$ 36,259
Net Investment Income (Loss):		
Investment Income (Loss)	$ 74,528	$ 12,155
Less: Investment Expenses	(82,386)	(469)
Net Investment Income (Loss)	$ (7,858)	$ 11,686
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 61,870	$ 670
Securities Lending Rebates and Fees	(25,163)	(268)
Net Securities Lending Revenue	$ 36,707	$ 402
Total Investment Income (Loss)	$ 28,849	$ 12,088
Transfers-In	$ 73,938	$ -
Other Additions	14,589	-
Total Additions	$ 2,819,143	$ 48,347
Deductions:		
Benefits	$ 4,632,965	$ -
Refunds and Withdrawals	315,984	37,089
Administrative Expenses	52,784	72
Transfers-Out	20,953	-
Total Deductions	$ 5,022,686	$ 37,161
Net Increase (Decrease)	$ (2,203,543)	$ 11,186
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 69,063,429	$ 860,614
Change in Reporting Entity	3,380	-
Change in Fund Structure	3,928	(3,928)
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 69,070,737	$ 856,686
Net Position Held in Trust for Pension Benefits and Pool Participants, Ending	$ 66,867,194	$ 867,872

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2015 and JUNE 30, 2016
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 58,048	$ 150,551	$ 458,520	$ 656,341	$ 1,323,460
Investments	38,181	10,849	471,057	307,239	827,326
Accounts Receivable	2,964	35,427	402,185	91,994	532,570
Due from Primary Government	114	74,575	14,302	13,723	102,714
Accrued Investment/Interest Income	11,905	1,997	1,915	16,843	32,660
Federal Aid Receivable	2,021	-	-	1,304	3,325
Inventories	-	30,212	22,097	54	52,363
Loans and Notes Receivable	-	16	10,942	227,999	238,957
Prepaid Expenses	-	-	-	5,409	5,409
Other Assets	3,103	1,314	26,364	18	30,799
Total Current Assets	$ 116,336	$ 304,941	$ 1,407,382	$ 1,320,924	$ 3,149,583
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 472,124	$ 168,416	$ 107,422	$ 219,802	$ 967,764
Investments-Restricted	1,677,107	67,134	124,545	20,173	1,888,959
Accounts Receivable-Restricted	-	16,037	-	253	16,290
Due from Primary Government-Restricted	-	4,021	-	-	4,021
Due from Primary Government	-	-	-	5,491	5,491
Investments	-	518,625	4,007,067	24,230	4,549,922
Accounts Receivable	-	-	144,566	324,974	469,540
Loans and Notes Receivable	1,224,448	45,709	74,177	2,248,078	3,592,412
Depreciable Capital Assets (Net)	2,783	3,524,068	2,530,750	55,630	6,113,231
Nondepreciable Capital Assets	-	646,625	562,122	858,787	2,067,534
Prepaid Expenses	-	-	-	4,442	4,442
Other Assets	-	-	21,640	69	21,709
Total Noncurrent Assets	$ 3,376,462	$ 4,990,635	$ 7,572,289	$ 3,761,929	$ 19,701,315
Total Assets	$ 3,492,798	$ 5,295,576	$ 8,979,671	$ 5,082,853	$ 22,850,898
DEFERRED OUTFLOWS OF RESOURCES					
Accumulated Decrease in Fair Value of Hedging Derivatives	$ 11,764	$ -	$ -	$ -	$ 11,764
Bond Refunding	199	-	-	18,253	18,452
Deferred Pension Outflows	2,980	50,854	25,303	818	79,955
Deferred Derivative Outflows	-	10,661	-	-	10,661
Total Deferred Outflows of Resources	$ 14,943	$ 61,515	$ 25,303	$ 19,071	$ 120,832
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 12,741	$ 89,403	$ 267,094	$ 79,754	$ 448,992
Due to Primary Government	-	-	3,067	13,695	16,762
Unearned Revenue	-	11,422	62,680	28,790	102,892
Accrued Interest Payable	26,900	2,391	15,593	16,305	61,189
Bonds and Notes Payable	85,115	217,275	291,602	86,413	680,405
Capital Leases Payable	-	790	4,140	-	4,930
Claims Payable	-	6,662	35,310	52,851	94,823
Compensated Absences Payable	263	23,182	184,071	268	207,784
Other Liabilities	-	-	795	968	1,763
Total Current Liabilities	$ 125,019	$ 351,125	$ 864,352	$ 279,044	$ 1,619,540
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 58,806	$ 53,903	$ 845	$ 113,554
Unearned Revenue-Restricted	-	87,999	-	-	87,999
Accrued Interest Payable-Restricted	-	12,778	-	-	12,778
Due to Primary Government	-	-	11,324	41,484	52,808
Unearned Revenue	-	-	61	-	61
Interest Rate Swap Agreements	11,764	-	-	-	11,764
Bonds and Notes Payable	2,222,107	1,335,197	1,159,257	1,462,371	6,178,932
Capital Leases Payable	-	7,085	14,702	-	21,787
Claims Payable	-	15,340	11,860	533,279	560,479
Compensated Absences Payable	1,942	7,183	23,293	869	33,287
Other Postemployment Benefits	260	87,231	138,200	76	225,767
Net Pension Liability	8,979	151,513	245,996	2,391	408,879
Funds Held in Trust	115,854	-	242,996	998	359,848
Other Liabilities	-	-	96,227	260	96,487
Total Noncurrent Liabilities	$ 2,360,906	$ 1,763,132	$ 1,997,819	$ 2,042,573	$ 8,164,430
Total Liabilities	$ 2,485,925	$ 2,114,257	$ 2,862,171	$ 2,321,617	$ 9,783,970
DEFERRED INFLOWS OF RESOURCES					
Bond Refunding	$ -	$ -	$ 1,915	$ -	$ 1,915
Deferred Revenue	12,118	-	-	10,335	22,453
Deferred Pension Inflows	11,327	182,601	296,977	3,454	494,359
Total Deferred Inflows of Resources	$ 23,445	$ 182,601	$ 298,892	$ 13,789	$ 518,727
NET POSITION					
Net Investment in Capital Assets	$ 2,783	$ 2,864,655	$ 1,661,883	$ 914,277	$ 5,443,598
Restricted-Expendable	995,588	417,821	2,167,116	1,759,452	5,339,977
Restricted-Nonexpendable	-	-	1,376,380	-	1,376,380
Unrestricted	-	(222,243)	638,532	92,789	509,078
Total Net Position	$ 998,371	$ 3,060,233	$ 5,843,911	$ 2,766,518	$ 12,669,033

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 and JUNE 30, 2016
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 382,905	$ 973,624	$ 3,819,989	$ 425,962	$ 5,602,480
Program Revenues:					
Charges for Services	$ 173,146	$ 357,862	$ 1,521,615	$ 150,214	$ 2,202,837
Operating Grants and Contributions	195,426	441,095	978,636	52,727	1,667,884
Capital Grants and Contributions	-	236,633	99,478	511,884	847,995
Net (Expense) Revenue	$ (14,333)	$ 61,966	$ (1,220,260)	$ 288,863	$ (883,764)
General Revenues:					
Taxes	$ -	$ 79,435	$ -	$ 1,686	$ 81,121
Investment Income	-	9,908	55,345	493	65,746
Other Revenues	774	-	603,746	8,191	612,711
Total General Revenues before Grants	$ 774	$ 89,343	$ 659,091	$ 10,370	$ 759,578
State Grants Not Restricted	$ 65,718	$ -	$ 663,705	$ 260,745	$ 990,168
Total General Revenues	$ 66,492	$ 89,343	$ 1,322,796	$ 271,115	$ 1,749,746
Change in Net Position	$ 52,159	$ 151,309	$ 102,536	$ 559,978	$ 865,982
Net Position, Beginning, as Reported	$ 946,212	$ 2,908,924	$ 5,756,828	$ 2,206,540	$ 11,818,504
Change in Accounting Principle	-	-	(15,453)	-	(15,453)
Net Position, Beginning, as Restated	$ 946,212	$ 2,908,924	$ 5,741,375	$ 2,206,540	$ 11,803,051
Net Position, Ending	$ 998,371	$ 3,060,233	$ 5,843,911	$ 2,766,518	$ 12,669,033

The notes are an integral part of the financial statements.

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These notes provide disclosures relevant to the basic financial statements on the preceding pages.

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying financial statements of the state of Minnesota (the state) have been prepared to conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented the following GASB statements for the fiscal year ended June 30, 2016:

GASB Statement No. 72 “Fair Value Measurement and Application” was issued in February 2015. The statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. See Note 2 – Cash, Investments, and Derivative Instruments for further information.

GASB Statement No. 76 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments” was issued in June 2015. The statement identifies the hierarchy of generally accepted accounting principles (GAAP) and reduces the GAAP hierarchy to two categories of authoritative GAAP. It addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement has no material impact on the state.

GASB Statement No. 78 “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans” was issued in December 2015. The statement amends the scope and applicability of Statement No. 68 “Accounting and Financial Reporting for Pensions” to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that has certain characteristics. The statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have certain characteristics. This statement has no impact on the state.

GASB Statement No. 79 “Certain External Investment Pools and Pool Participants” was issued in December 2015. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement has no impact on the state.

GASB Statement No. 82 “Pension Issues” was issued in March 2016. The statement addresses issues raised with respect to GASB Statement No. 67 “Financial Reporting for Pension Plans,” GASB Statement No. 68 “Accounting and Financial Reporting for Pensions,” and GASB Statement No. 73 “Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.” These issues relate to the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy plan member contribution requirements. This statement has no material impact on the state.

Financial Reporting Entity of the State of Minnesota

This report includes the state departments, agencies, institutions, and organizational units that are controlled by or dependent upon the Minnesota Legislature or its constitutional officers. The state of Minnesota, as a primary government, consists of all organizations that make up its legal entity. This report also includes other legally separate organizations as component units. GASB has established criteria for determining which organizations should be included as component units. Legally separate organizations are reported as component units if either the state is financially accountable for the organization or the nature and significance of the organization's relationship with the state are such that exclusion would cause the state's financial statements to be misleading. These criteria include the state's ability to appoint a voting majority of an organization's governing body, and either the state's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the state.

Component units may be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the state's operations. All of the state's component units are discretely presented component units that are shown separately from the primary government. The "Component Units" column in the accompanying financial statements includes the financial data of the state's discretely presented component units. Discretely presented component units are also identified separately in the note disclosures because of their separate legal status. All discretely presented component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting.

Discretely Presented Component Units

The following provides a description of the state's discretely presented component units.

- Housing Finance Agency (HFA) – HFA provides money for loans and technical assistance for constructing and rehabilitating housing for families of low and moderate incomes. The HFA board has seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. The state has the ability to significantly influence the programs, projects, and levels of services provided by HFA. HFA issues bonds in its own name.

- Metropolitan Council (MC) – MC is responsible for coordinating the planning and development of the seven-county metropolitan area. MC operates the public transit system and the regional sewage collection and treatment system. The governor appoints the council members, including the chair, subject to the advice and consent of the Minnesota senate. The state has the ability to significantly influence the projects and levels of services provided by MC. The regional administrator, appointed by the council, is responsible for the administration of council activities. The fiscal year for MC ends December 31.

- University of Minnesota (U of M) – U of M was established permanently by the Minnesota constitution. The state appropriates a large percentage of U of M's operating budget. The Minnesota Legislature elects the twelve-member board of regents, which governs U of M, but the state does not have direct authority over the management of the university. The state has issued debt for U of M capital projects. U of M includes several nonprofit organizations as component units.

- Agricultural and Economic Development Board (AEDB) – AEDB administers programs for agricultural and economic development. AEDB has seven members, four of whom are commissioners of state departments. The state has the ability to significantly influence the programs and projects of AEDB. AEDB controls the operations of the agriculture resource programs and loans. AEDB may issue revenue bonds for the purpose of financing development projects.

- National Sports Center Foundation (NSCF) – The Minnesota Amateur Sports Commission contracts with NSCF to operate various sports facilities, including the National Sports Center, primarily for holding youth-oriented athletic and other non-athletic functions and events. Although the facilities belong to the state, NSCF is responsible for the operating costs and certain improvements to the facilities. The commission appoints foundation board members, approves the foundation's spending budget, approves all rates and fees, and owns any reserve funds. The fiscal year for NSCF ends December 31.

- Office of Higher Education (OHE) – OHE makes and guarantees loans to qualified post-secondary students. To fund the loan program, revenue bonds are issued in OHE's name with limitations set by the Minnesota Legislature. OHE also administers the state grant program. The state provides administrative funding for these programs. The governor appoints the OHE director with the advice and consent of the senate.

- Public Facilities Authority (PFA) – PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. The state provides funding and administrative services for PFA. PFA is composed of commissioners from state departments and agencies. The commissioners direct the operations of the authority and determine the funding for local government projects. PFA issues revenue bonds to make loans for wastewater treatment facilities.

- Rural Finance Authority (RFA) – RFA administers a number of state agriculture programs, including the homestead redemption program, loan restructuring program, and agricultural improvement program. The board of the authority consists of state department heads and members appointed by the governor. RFA is under the administrative control of the commissioner of the Department of Agriculture, who is a member of the board. The state has issued general obligation bond debt for RFA programs.

- Workers' Compensation Assigned Risk Plan (WCARP) – WCARP is the source of workers' compensation and employers' liability coverage for Minnesota employers unable to obtain an insurance policy through the voluntary market. WCARP operations are subject to review by the state commissioner of the Department of Commerce. The commissioner enters into administrative contracts, sets premium rates, and makes assessments. The commissioner has the authority to assess all licensed workers' compensation insurance companies doing business in Minnesota an amount sufficient to fully fund the obligations of the plan to the extent that the assets of the plan are inadequate to meet its obligations. The fiscal year for WCARP ends December 31.

- Minnesota Sports Facilities Authority (MSFA) – MSFA's mission is to provide for the construction, financing, and long-term use of a new multi-purpose stadium and related stadium infrastructure as a venue for professional football and a broad range of other civic, community, athletic, educational, cultural, and commercial activities. MSFA has five members, including a chair and two members who are appointed by the governor. The state provides administrative funding to MSFA. The fiscal year for MSFA ends December 31.

A discretely presented component unit is classified as major or nonmajor, depending on its significance relative to other component units and the nature and significance of the component unit's relationship to the primary government. HFA, MC, and U of M are classified as major component units for this report.

Additional information is available from the component unit's separately-issued financial statements. Because AEDB and RFA do not issue separately audited financial statements, the combining financial statements include a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows for each of these component units.

Complete financial statements of the discretely presented component units may be obtained from their respective administrative offices as follows:

Housing Finance Agency 400 Sibley Street, Suite 300 St. Paul, Minnesota 55101-1998	Office of Higher Education 1450 Energy Park Drive, Suite 350 St. Paul, Minnesota 55108-5227
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55454-1075	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building 332 Minnesota Street, Suite W820 St. Paul, Minnesota 55101-1378
National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449-4500	Workers' Compensation Assigned Risk Plan Affinity Insurance Services, Inc. 5600 West 83rd Street 8200 Tower, Suite 1100 Minneapolis, Minnesota 55437-1062
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101-1805	Minnesota Sports Facilities Authority 1005 4th Street South Minneapolis, Minnesota 55415-1752

Related Entities – These are entities for which the state is accountable because the state appoints a voting majority of the board, but for which the state does not have financial accountability. The following are related entities, but are not included in the reporting entity:

- Higher Education Facilities Authority (HEFA) – The governor appoints a majority of the board. HEFA can issue revenue bonds and notes in its name. The state has no statutory authority to affect the operations of HEFA.

- Joint Underwriting Association – The state commissioner of the Department of Commerce appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments. Membership in the association is a condition for doing business in the state.

- Metropolitan Airports Commission – The governor appoints a majority of the voting commissioners. The state has no statutory authority to directly affect the commission's activities and operations. Holders of the commission's debt instruments have no recourse against the state.

- Workers' Compensation Reinsurance Association – The state commissioner of the Department of Labor and Industry appoints, or approves the appointment of, a majority of the board. The association supports itself solely from revenues derived from premiums charged to association members. The state has no authority to affect the operations of the association.

The following organizations, which are included in the primary government, prepare and publish separate financial reports, which may contain differences in presentation resulting from differing reporting emphasis. These financial reports may be obtained directly from each organization.

Minnesota State Lottery 2645 Long Lake Road Roseville, Minnesota 55113-1117	Minnesota State Retirement System 60 Empire Drive, Suite 300 St. Paul, Minnesota 55103-1888
Public Employees Retirement Association 60 Empire Drive, Suite 200 St. Paul, Minnesota 55103-1890	Teachers Retirement Association 60 Empire Drive, Suite 400 St. Paul, Minnesota 55103-1889
State Board of Investment 60 Empire Drive, Suite 355 St. Paul, Minnesota 55103-1888	Minnesota State Colleges and Universities Financial Reporting Unit 500 Wells Fargo Place, 30 East 7th Street St. Paul, Minnesota 55101-4914

The financial reports, available from the State Board of Investment, report on investments in investment pools, which include the majority of the state's Fiduciary Funds.

Financial Reporting Structure of the State of Minnesota

The basic financial statements include government-wide and fund financial statements. The government-wide financial statements report on the state as a whole, while the fund financial statements emphasize major individual funds and fund types. Both types of statements categorize activities as either governmental or business-type. Governmental expenditures are classified by function. Each of the state's departments and agencies is included in a functional classification based on its primary mission and objectives.

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the state as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state and its discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once in the function for which the expenses were made. General government expenses that benefit state agencies have not been allocated as indirect expenses to the various functions of the state, but are reported under the general government function.

The focus of the government-wide statements is on financial information of the state as an entity and the change in the overall financial position of the state as a result of the activities of the fiscal year. Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and long-term, are reported in the government-wide statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements. These amounts are reported as expenditures in the governmental fund financial statements. Long-term debt is recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liabilities, rather than as expenditures.

In the government-wide Statement of Net Position, both the governmental and business-type activities are presented on a consolidated basis by column. The statement includes long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reports how much of the cost of each functional category (public safety and corrections, transportation, etc.) is supported by general government revenues (sales taxes, income taxes, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues, and by operating and capital grants and contributions.

Program revenues must be directly associated with, or derived directly from, the function or a business-type activity. Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. Program revenues are applied against program expenses in the Statement of Activities to report the net cost of each program.

General revenues normally cover the net costs (program expenses less program revenues) of all activities. Taxes represent the majority of general revenues. Internally dedicated resources are reported as general revenues, rather than program revenues.

Fund Financial Statements

Fund financial statements report on the financial operations and position of governmental, proprietary, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The emphasis in fund financial statements is on the major funds in the governmental or enterprise categories. All remaining governmental, proprietary, and fiduciary funds are aggregated and reported as nonmajor funds.

Governmental funds, including the general, special revenue, capital projects, debt service, and permanent funds, are presented on a current financial resource measurement focus and modified accrual basis of accounting in the fund financial statements. This presentation is deemed most appropriate to demonstrate compliance with legal and bond covenant requirements, the source and use of financial resources, and how the state's actual spending conforms to the budget. Because the governmental fund statements are presented using a different measurement focus and basis of accounting than used in the governmental column in the government-wide statements, reconciliations explaining the adjustments required to restate the fund-based financial statements for the government-wide governmental activities column are included.

Proprietary funds, including the enterprise and internal service funds, are presented on the economic resource measurement focus and full accrual basis of accounting in the fund financial statements. This is the same measurement focus and basis of accounting as the government-wide financial statements.

The state's fiduciary funds are presented in the fund financial statements by type (pension trust, investment trust, or agency). These assets are held for the benefit of others and cannot be used for activities or obligations of the government; therefore, the funds are excluded from the government-wide statements.

The fund financial statements are presented after the government-wide financial statements. These statements display information about major funds individually, and nonmajor funds in the aggregate, for governmental, enterprise, and internal service funds.

Classification of Funds

The financial position and results of state operations are organized using individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by

administrative discretion. The state uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

Governmental Fund Types – These funds account for the acquisition, use, and balances of expendable financial resources and the related current liabilities. Most state operations are accounted for in this fund category. The fund types included in this category are the General Fund plus special revenue, capital project, debt service, and permanent funds.

- General Fund, which accounts for all financial resources not accounted for and reported in another fund. The Environment and Natural Resources account is one account within the General Fund. It is a permanent trust fund that was established by Minnesota Constitution, Art. XI, Sec. 14. The Constitution outlines the amount that can be appropriated each biennium. Amounts that can be authorized for expenditure are classified as restricted on the face of the statements.

- Special revenue funds, which account for revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

- Capital project funds, which account for financial resources that are restricted, committed, or assigned to capital expenditures, including the acquisition or construction of capital facilities and other capital assets. The state's capital expenditures are reported as capital outlay, whereas capital expenditures for other entities are reported as grant expenditures. Capital project funds exclude capital-related outflows financed by proprietary funds or for assets that will be held in trust.

- Debt Service Fund, which accounts for the accumulation of resources for, and the payment of, most general obligation long-term debt principal and interest.

- Permanent Fund, which accounts for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs. Minnesota Constitution, Art. XI, Sec. 8 allows for the distribution of net interest and dividends to school districts. The change in investment value is recorded on the face of the financial statements as "Investment/Interest Income." Amounts that can be authorized for expenditure are classified as restricted on the face of the statements.

The state has two major governmental funds. The General Fund is the principal operating fund used to account for most of the general activities of the state. The Federal Fund is the state's only major special revenue fund. It receives and disburses federal government grants, reimbursements, recoveries, and premiums.

Proprietary Fund Types – These funds focus on determining net income, changes in net position, financial position, and cash flows. Generally accepted accounting principles, similar to those used by private sector businesses, are followed in accounting for these funds. The fund types included in this category are the enterprise and internal service funds.

- Enterprise funds account for activities that charge a fee to external users for goods or services. Activities of enterprise funds are financed and operated similarly to private business enterprises where the intent of the governing body is to recover costs primarily through user fees.

- Internal service funds account for the financing of goods or services provided by one agency to primarily other state agencies on a cost reimbursement or other basis. The activities reported as internal service funds include motor pool, central services, employee insurance, technology services, plant management, and risk management.

The state has two major enterprise funds, the State Colleges and Universities Fund and the Unemployment Insurance Fund. The State Colleges and Universities Fund accounts for the activities of the Minnesota State Colleges and Universities (MnSCU) System. MnSCU, the largest higher education

system in the state, is a system of public colleges and universities. The Unemployment Insurance Fund receives unemployment taxes collected from employers and pays unemployment benefits to eligible individuals.

Fiduciary Funds Types – These funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Pension trust, investment trust, and agency fund types are included in this fund category.

- Pension trust funds report retirement funds administered by independent boards for which the state has a fiduciary role.
- Investment trust funds provide an investment vehicle for entities outside the state, including various public retirement plans.
- The Agency Fund accounts for resources held in a custodial capacity for individuals, private organizations, or other governmental units. Some examples include resources held for inmates of correctional facilities or residents of veterans and group homes, sales taxes to be distributed to local governments, and child support collections to be distributed to custodial parents.

Basis of Accounting, Measurement Focus, and Fund Financial Statement Presentation

All governmental funds focus on the flow of current financial resources and use the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) to fund balances. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year, or to liquidate liabilities existing at fiscal year end. The state considers receivables collected after June 30, but by the close of the books in late August, to be available, and recognizes these receivables as current year revenues in governmental funds. Individual income taxes, property taxes, sales taxes, and federal grants are the major revenue sources susceptible to accrual. Receivables not collected by the close of the books in late August are reported as deferred revenue. In addition, revenues collected in advance, including certain federal grant revenues to which the state does not yet have legal entitlement, are also reported as deferred revenue until the related commitment arises, at which time revenue is recognized. Expenditures and related liabilities are recognized when fund obligations are incurred, except for debt service, compensated absences, capital leases, pension and other postemployment benefits, and claims and judgments, which are recorded when due and expected to be liquidated with available financial resources. The following provides further detail on specific items regarding the modified accrual basis of accounting.

Tax Revenues – Tax revenues, excluding property taxes, are recognized in the period they become both measurable and available to finance expenditures of the current period. Measurable means that taxpayer liability is supported by sufficient documentation and can be reasonably estimated. The state's liability for anticipated refunds of such taxes is estimated and recorded as reductions in revenue in the period when the related tax is recognized.

Property Tax Revenues – Laws of Minnesota Special Session 2001 established a state general tax (property tax) against commercial/industrial and seasonal residential recreational properties. Counties, as agents for the state, assess the state general tax. The tax is distributed among counties by applying a uniform rate to the appropriate tax capacities in each county. Levies are determined based on the formula contained in the laws. The state preliminarily certifies the state general levy rate to each county no later than November 1 of each year for taxes payable in the following calendar year. The state certifies the final state general tax levy on January 1 of each year to each county. Property taxes are due to counties in two installments for each year – May 15 and October 15. The counties pay the state general tax to the state on three dates – June 30, December 1, and January 25 for any adjustments or changes. Property tax is recognized, net of uncollectible amounts, in the period for which the taxes are levied and the taxes are available.

Federal Revenues – Federal revenues, earned by incurring allowable obligations, are recognized at the same time the related obligation is recognized, with one exception. Trunk Highway Fund (special revenue fund) expenditures incurred by June 30, but not converted to Federal funding by the close of the federal fiscal year, are not recognized as federal revenues.

Proprietary, pension trust, and investment trust funds are accounted for using the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred. The accrual basis of accounting is also used for contributions, benefits, and refunds paid for defined benefit and defined contribution pension plans. Agency funds use the accrual basis of accounting but do not have a measurement focus because agency funds do not recognize revenues and expenses.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expense, and depreciation of capital assets. All other revenues and expenses are reported as nonoperating items.

Cash Equivalents and Investments

Cash Equivalents – Cash equivalents are short-term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash equivalents also include management pools and money market funds that are used essentially as demand deposit accounts.

Investments – Investments are reported at fair value, which is defined as the exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. During fiscal year 2016, the state implemented GASB Statement No. 72 "Fair Value Measurement and Application" which sets forth the framework for measuring the fair value of investments based on a hierarchy of valuation inputs. Investments in derivatives are generally made to manage the overall risk of the individual manager's portfolios to a level satisfactory to the investment management firm and in accordance with the firm's contract with the State Board of Investment. See Note 2 – Cash, Investments, and Derivative Instruments for additional information regarding cash, investments, and derivative instruments.

Inventories

Generally, inventories for governmental funds are recorded as expenditures when purchased and are not a resource available for appropriation. The exception primarily relates to the Trunk Highway Fund (special revenue fund) and inventories are valued using weighted-average cost. Inventories maintained by the various funds are determined by annual and periodic physical counts. Inventories of proprietary funds are valued using the first-in, first-out, average cost, or specific cost methods.

Securities Lending

Securities on loan for cash collateral and the liabilities resulting from the security lending transactions are reported on the Statement of Net Position or the Balance Sheet, as appropriate, for the particular fund type or level of reporting. Securities lending income and rebate and management fees are reported separately on the Statement of Revenues, Expenditures and Changes in Fund Balances; the Statement of Revenues, Expenses and Changes in Net Position; or the Statement of Changes in Net Position, as appropriate for the particular fund type.

Restricted Net Position

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds and discretely presented component units as restricted net position. After liabilities from restricted assets are paid, any remaining restricted assets in the enterprise funds will be used for debt service.

Income Tax Credits

The Minnesota Department of Revenue processes several types of tax credits through the individual income tax system. For financial reporting purposes, income tax credits that are limited by the amount of the individual's tax liability (before considering such credits) are reported as revenue reductions. In contrast, credits for Education, Working Family, and Child and Dependent Care may be received even if they exceed the individual's tax liability. These types of credits are reported as expenditures, rather than revenue reductions, because the income tax system is, essentially, being used as a filing and payment mechanism to make grant payments to individuals.

Grant Expenditures and Liabilities Recognition

Grants are defined as nonexchange transactions because the state gives (or receives) value to another party without receiving (or giving) equal value in return. Grants are normally paid on either a reimbursement basis or an entitlement basis.

Reimbursement type grants may be awarded for specific services provided to eligible recipients, or may be made for eligible types of reimbursements. Grants paid on the reimbursement basis are recognized as expenditures and liabilities in the year in which the grantee incurs the costs of providing specific services to eligible recipients or makes eligible types of expenditures.

Entitlement type grants may be based on services provided by the grantee. The intent of the grant is to help fund such services, but the grant amount is not based on the cost of providing the service(s). Expenditures and the related liabilities for these types of entitlement grants are recognized as the service is provided if the amount owed can be reasonably estimated soon after the end of the state's fiscal year. Other types of entitlement grants are not based on the services provided or action taken by the grantee. Expenditures and the related liabilities for these types of grants are recognized in the fiscal year in which the resources were appropriated.

Compensated Absences

State employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. Leave balances are liquidated in cash only upon termination from state employment. The current and noncurrent compensated absences liabilities for governmental funds are reported only in the government-wide Statement of Net Position. All other fund types report the liability for compensated absences as a liability of the specific fund.

Capital Assets

Capital assets, which include land, buildings, equipment, infrastructure, intangible assets, and art and historical treasures, are reported in the government-wide financial statements and the fund financial statements for proprietary and fiduciary funds. Capital assets are generally defined by the state as assets with an initial, individual cost of more than $300,000 for buildings, $30,000 for equipment, $300,000 for infrastructure, $30,000 to $2,000,000 for internally generated computer software depending on the fund and fund type, and $30,000 for art and historical treasures. All land and easement assets are capitalized, regardless of cost. Capital assets must also have an estimated useful life of two or more years.

Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. An inventory of land and buildings was completed in 1985. Historical cost records for older capital assets are incomplete or not available; therefore, estimated historical costs have been used in these situations. Permanent School Fund (permanent fund) land is reported at estimated historic cost. The land included in the Permanent School Fund was granted to the state by the federal government in connection with the state being admitted to the United States. Tax forfeited land is not included in land inventory because the state does not take permanent title. When the land is sold, proceeds are distributed to local jurisdictions.

Capital assets are depreciated using the straight-line method generally based on the following useful lives: 20-50 years for buildings, 20-50 years for large improvements, 3-10 years for small improvements,

3-12 years for equipment, 3-10 years for internally generated computer software, and 20-50 years for easements. Transportation infrastructure assets using the modified approach, land, construction and development in progress, permanent easements with indefinite useful lives, and works of art and historical treasures, such as the state capitol, are not depreciated.

GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" allows an alternative (modified) approach to the recording of infrastructure assets in which costs to maintain and preserve these assets are expensed in lieu of depreciation. The transportation infrastructure capital assets of pavement and bridges are reported using the modified approach. In electing to use this option for transportation infrastructure, the state uses an asset management system which establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's pavement and bridges are included in Required Supplementary Information Modified Approach for Infrastructure. See Note 6 – Capital Assets for further information on capital assets.

Current and Noncurrent Assets

At the government-wide level, assets are classified as either current or noncurrent. Governmental activity current assets are those considered available for appropriation and expenditure and include cash, various receivables, and short-term investments. Current assets in business-type activities are those that are available or can readily be made available to meet the cost of operating or to pay current liabilities. All other assets are considered noncurrent. Assets are classified as current or noncurrent in proprietary funds, but assets are not classified at the fund level for governmental funds.

Deferred Outflows of Resources

Contributions to pension plans subsequent to the measurement date of the net pension liability and before the fiscal year end are reported as deferred outflows of resources. In addition, amounts related to the increases in the net pension liability due to changes in assumptions, changes in the primary government's proportionate share of the net pension liability, differences between expected and actual experience, and net differences between projected and actual investment earnings are reported as deferred outflows of resources. These amounts are amortized as pension expense over the average of the expected remaining service lives of all employees of the applicable pension plan, with the exception of the difference between projected and actual earnings, which is amortized over five years.

Current and Noncurrent Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. Long-term liabilities are the amount of liabilities not due and payable during the fiscal year resulting from debt issuances, compensated absences, closure and postclosure care for landfills, workers' compensation claims, supplementary and second injury benefit claims, pollution remediation obligations, capital leases, net pension, other postemployment benefits, and arbitrage rebate requirements. In proprietary fund statements, these liabilities are reported as liabilities of each individual fund.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

See Note 12 – Long-Term Liabilities – Primary Government for further information.

Deferred Inflows of Resources

In the governmental funds, when an asset is recorded but the revenue is not available, the amount is reported as a deferred inflow of resources until the revenue becomes available. Amounts that are not permitted to be used until the next fiscal year remain as deferred inflows of resources in the government-wide statements. In addition, differences between the reacquisition price and the net carrying amounts on refunding general obligation bonds as well as the adjustments to the lease obligations on a capital lease restructuring due to the refunding of the debt by the lessor are reported as a deferred inflow of resources on the government-wide financial statements. These amounts are amortized as interest expense over the shorter of the remaining life of the old debt or the life of the new debt. Amounts related to the decreases in the net pension liability due to changes in assumptions, changes in the primary government's proportionate share of the net pension liability, differences between expected and actual experience, and net differences between projected and actual investment earnings are reported as deferred inflows of resources. These amounts are amortized as pension expense over the average of the expected remaining service lives of all employees of the applicable pension plan, with the exception of the difference between projected and actual earnings, which is amortized over five years.

Deferred Compensation Plan

The state offers a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The State Deferred Compensation Fund (pension trust fund) represents the value of all assets of the plan. The plan is available to all public employees in the state and is administered by the Minnesota State Retirement System. Under this plan, compensation is deferred for income tax purposes in accordance with Section 457 and is not available to employees until termination, retirement, death, or unforeseeable emergency. In accordance with state statute, effective July 1, 1997, contributions are held for the exclusive benefit of the participants and their beneficiaries. These amounts are held in trust, in custodial accounts, or in qualifying contracts, as required by federal law. The State Board of Investment determines the investment options available to plan participants and oversees the activities of the investment managers. The majority of the assets of the plan are invested in various mutual funds. The state is not liable for any investment losses under the plan.

Net Position/Fund Balances and Fund Balance Classification Policies and Procedures

The difference between fund assets and liabilities is "Net Position" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balances" on governmental fund statements.

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets as well as deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of these assets or related debt. Significant unspent related debt proceeds are included in Restricted for Capital Projects.

Restricted Net Position represents the portion of net position that is constrained either externally by parties such as creditors or grantors, or legally through constitutional provisions or enabling legislation. Restricted net position is determined at the fund level. For a fund with more than one revenue stream, restricted net position is determined by the materiality of any restricted revenues in the fund. When both restricted and unrestricted net position are available for use, the state policy is to use restricted resources first.

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the state is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or, imposed by law through constitutional provisions or enabling legislation. Amounts that can only be used for specific purposes pursuant to constraints imposed by the Minnesota Legislature by passing a bill, which is signed by the Governor, are reported as committed fund balance. Those committed amounts cannot be used for any other purpose

unless the Minnesota Legislature removes or changes the specified use by taking the same type of action it employed to commit those amounts. Amounts that are constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed, are classified as assigned fund balances. Intent is expressed by agency heads to whom the Governor has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Nonspendable fund balances include amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

The state's policy is that restricted amounts are spent first when expenditures are incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the state's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Budgeting and Budgetary Control

The state operates on a two-year (biennial) budget cycle ending on June 30 of odd-numbered years. Appropriations in the biennial budget are usually for a single year; however, where specified, single year appropriations may be carried forward to the following year of the biennium. The governor's budget for the biennium is developed by Minnesota Management and Budget and presented to the Minnesota Legislature for approval. Specific appropriations are required for the majority of the expenditures from the General Fund. The accounts not requiring specific appropriations are considered perspective differences in the budgetary basis vs. GAAP reconciliation. Specific appropriations are also required for all special revenue funds except the Federal, Municipal State-Aid Street, County State-Aid Highway, Douglas J. Johnson Economic Protection Trust, Endowment, and Miscellaneous Special Revenue funds. Some appropriations are "open appropriations" for entitlement type and some interfund transfer programs. In these cases, the amount that is needed to fulfill the obligation for the fiscal year is made available. There is no limit on the amount that can be expended for the program. Estimates of the amount needed for such programs are included in the budget forecast.

Budgetary control is essentially maintained at the departmental level except for certain programs where control is at the program level. In most departments, upon notifying the governor and legislative leadership, department heads are permitted to revise budgets by transferring amounts between programs within their departments.

Unencumbered appropriation balances generally cancel to the fund at the end of the fiscal year. However, if specifically provided by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The accounting system maintains two separate ledgers. One is maintained primarily on a modified cash basis of accounting with certain accrual information and represents the starting point for the financial statements. The second ledger tracks information on a budgetary basis of accounting, which approximates a cash basis with the exception that, at year-end, encumbered amounts are included as expenditures of the year appropriated for budgetary reporting. The budget ledger controls expenditures by appropriation line item as established in the legally adopted appropriation bills. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from Minnesota Management and Budget.

Interfund Activity and Balances

Generally, internal service fund activity has been eliminated from the government-wide statements. Internal service fund activity from external customers is reported under governmental activities in the government-wide statements. Interfund receivables and payables have been eliminated from the government-wide Statement of Net Position, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions for additional information.

Note 2 – Cash, Investments, and Derivative Instruments

Primary Government

Cash and Cash Equivalents

The majority of the primary government's cash is held in the state treasury and commingled in state bank accounts, while the majority of component unit cash is held in separate bank accounts. Cash in individual funds may be invested separately where permitted by statute; however, cash in most funds is invested as part of an investment pool. A fund's investment with the primary government's cash pools is reported as a cash equivalent. Where provided by statute, investment earnings of the primary government's pools are allocated to the individual funds. Earnings for all other participants are credited to the General Fund.

Deposits

Minnesota Statutes, Section 9.031, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. The statute further requires that the insurance and collateral shall be in an amount sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amounts and the fair value of the collateral.

Investments

The State Board of Investment (SBI) manages the majority of the state's investments. All investments undertaken by SBI are governed by the standards codified in Minnesota Statutes, Chapters 11A and 356A. Minnesota Statutes, Section 11A.24, broadly restricts investments of the primary government to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and restricted participation in registered mutual funds.

Funds not invested by SBI are primarily from the Minnesota State Colleges and Universities. Investments for these funds must also conform to the above statutes and may be further restricted by bond indentures.

Generally, when applicable, the statutes limit investments to those rated by a nationally recognized rating agency within the top four quality ratings categories. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

SBI is authorized to establish, and has established, combined investment funds used by participating public retirement and nonretirement funds. Retirement and nonretirement funds may not be commingled. Each investment fund has its own characteristics, including investment objective and risk characteristics. Within statutory requirements and based on detailed analyses of each fund, SBI has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

Investment Derivative Instruments

Minnesota Statutes, Section 11A.24, provides that any agreement for put and call options and futures contracts may only be entered into with a fully offsetting amount of cash or securities. This provision applies to foreign currency forward contracts used to offset the currency risk of a security. All other derivatives are exchange traded. The purpose of the SBI derivative activity is to equitize cash in the portfolio, to adjust the duration of the portfolio, or to offset current futures positions.

The cash inflows, cash outflows, and changes in fair value of investment derivatives are reported as investment income. The June 30, 2016, fair value of investment derivatives is reported as investments.

Synthetic Guaranteed Investment Contract (SGIC): SBI maintains a fully benefit-responsive SGIC for the Supplemental Investment Pool - Fixed Interest Account of the pension trust and investment trust funds' portfolio. The investment objective of the Fixed Interest Account is to protect investors in defined contribution and deferred compensation plans from loss of their original investment and to provide a competitive interest rate. On June 30, 2016, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of $1,418,560,000 that is $40,433,000 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool with a fair value of $166,470,000.

The following table summarizes, by derivative type, the investment derivative activity and June 30 positions for fiscal year 2016:

Primary Government
Derivative Activity for the Year Ended June 30, 2016
By Derivative Type
(In Thousands)

	Change in Fair Value	Year End Notional Amount	Year End Fair Value
Governmental Activities:			
Futures	$ 2,263	$ 37	$ -
Fiduciary Activities:			
Futures	$ (34,887)	$ (322,895)	$ -
Futures Options Bought	(3,679)	-	-
Futures Options Written	2,602	(269)	(128)
FX Forwards	8,461	288,554	3,982
Warrants/Stock Rights	(358)	2,421	1,284
	$ (27,861)	$ (32,189)	$ 5,138

Credit Risk: Minnesota is exposed to credit risk through five counter parties in foreign currency forward (FX Forward) contracts used to offset the currency risk of a security. The state's FX Forward counter parties combined exposes the state to a maximum loss of $6,754,000 should these counter parties fail to perform. These counter parties have Standard & Poor's (S&P) credit ratings of BBB+ or better. The primary government, excluding pension and investment trust funds, had no exposure to counter party risk.

Foreign Currency Risk: Currency futures and foreign stock index futures are exposed to foreign currency risk. Their currency risks are included in the investment Foreign Currency Risk schedule of this note.

Component Unit Derivative Activity: Derivative activity of the state's component units is disclosed in the last section of this note.

Credit Risk of Debt Security Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holders of the investment. Minnesota Statutes limit investments in debt securities to the top four quality ratings categories by a nationally recognized rating agency. SBI may also invest in unrated corporate obligations or in corporate obligations that are not rated among the top four quality categories provided that:

Unrated Corporate Obligations

- Aggregate value of these obligations may not exceed 5 percent of the fund for which the state board is investing;
- SBI's participation is limited to 50 percent of a single offering; and
- SBI's participation is limited to 25 percent of the issuer's unrated obligations.

Corporate Stock

- Aggregate value of corporate stock may not exceed 85 percent of the market or book value, whichever is less, of a fund.
- Generally, investment in corporate stock may not exceed 5 percent of the total outstanding shares of any one corporation.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The state does not have a policy on interest rate risk. The contracts between SBI and investment managers contain the guidelines and limitations regarding interest rate risk. Debt securities are constrained around the quality rating, sector mix, and duration of the Barclays Capital U.S. Aggregate Bond index. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

Fair Value Reporting

GASB Statement No. 72 "Fair Value Measurement and Application" sets forth the framework for measuring the fair value of investments based on a hierarchy of valuation inputs. The statement defines fair value as the exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The hierarchy has three levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs for Level 2 include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs reflect SBI's assumptions about the inputs that market participants would use in pricing an asset or liability.

Net Asset Value (NAV) per share, or its equivalent, is the measurement used for investments that do not have a readily determinable fair value as a practical expedient. These investments are not classified in the fair value hierarchy.

All non-cash investments, including derivative investments that are not hedging derivatives, are required to be measured at fair value on a recurring basis. SBI maintains investment pools in which participants can invest where participants own a proportionate share of the investment pools. The fair value of the investment pools is priced daily by the SBI custodian, when a daily price is available, by using independent pricing sources.

Level 3 investments primarily consist of assets where the asset is distressed or there is not an active market. The fair value of the assets measured at NAV have been determined using the March 31, 2016, values, adjusted for cash flows. The investments measured at NAV are typically not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which occur over the life of the investment. Cash and short-term investments are not leveled under GASB 72.

To the extent available, SBI investments are recorded at fair value as of June 30, 2016. SBI has 21 investments that are valued at NAV that are currently in the liquidation mode, totaling 1.5 percent of the NAV value. SBI has a total of $5,412,991,000 in unfunded commitments to the investments valued at NAV.

The state does not have a credit risk policy that is more stringent than the statutory requirements. The contracts between SBI and investment managers include guidelines or limitations regarding credit risk. The exposure to credit risk is based on the lower of S&P or Moody's Quality Ratings. For clarity of reporting, Moody's ratings are displayed in this exhibit using the comparable S&P rating.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
As of June 30, 2016
(In Thousands)

Quality Rating	Fair Value
AAA	$ 559,307
AA	231,585
A	1,638,748
BBB	359,517
BB	87,324
CCC	8,536
D	2,454
Unrated	5,782,850
Agencies	1,482,871
U.S. Governments	1,778,056
Total Debt Securities	$ 11,931,248

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
Interest Rate Risk
As of June 30, 2016
(In Thousands)

Security Type	Fair Value	Weighted Average Maturity in Years
U.S. Treasury	$ 1,529,250	1.82
U.S. Agencies	1,232,717	1.07
Mortgage-backed Securities	164,229	9.48
State or Local Government Bonds	78,264	3.66
Corporate Bonds	2,018,448	2.38
Yankee Bonds	735,525	0.75
Short Term Notes	6,172,815	0.28
Total Debt Securities	$ 11,931,248	
Equity Investments:		
Corporate Stock	$ 1,328,495	
Other Investments:		
Escheat Property	$ 14,218	
Money Market Accounts	10,706	
Total Other Investments	$ 24,924	
Total Investments	$ 13,284,667[1]	

[1] Total investments are less than the amount shown on the face of the financial statements as amounts do not include cash on hand.

Primary Government
Governmental, Proprietary, and Agency Funds
Fair Value of Investments
As of June 30, 2016
(In Thousands)

Investments	Fair Value	Level 1	Level 2
Equity:			
Common Stock	$ 1,284,963	$ 1,281,680	$ 3,283
Real Estate Investment Trust	42,012	42,012	-
Equity Total	$ 1,326,975	$ 1,323,692	$ 3,283
Fixed Income:			
Asset-backed Securities	$ 114,040	$ -	$ 114,040
Mortgage-backed Securities	164,229	-	164,229
Corporate Bonds	2,536,455	-	2,536,455
Government Issues	3,378,887	13,416	3,365,471
Fixed Income Total	$ 6,193,611	$ 13,416	$ 6,180,195
Total Investments by Fair Value	$ 7,520,586[1]	$ 1,337,108	$ 6,183,478

[1] Total investments are less than the cash, cash equivalent investments, and investments shown on the face of the financial statements since cash and short-term investments are not leveled under GASB 72 so are not included in this table.

Primary Government
Pension Trust and Investment Trust Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
As of June 30, 2016
(In Thousands)

Quality Rating	Fair Value
AAA	$ 791,176
AA	368,960
A	870,997
BBB	2,782,010
BB	1,558,384
B	225,126
CCC	105,712
CC	42,524
C	2,435
D	20,596
Unrated	2,205,555
Agencies	4,280,471
U.S. Governments	3,855,477
Total Debt Securities	$ 17,109,423

Primary Government
Pension Trust and Investment Trust Funds
Investment Pools - Investments and Cash Equivalent Investments
Interest Rate Risk
As of June 30, 2016
(In Thousands)

Security Type	Fair Value	Weighted Average Maturity in Years
U.S. Treasury	$ 3,854,763	9.80
U.S. Agencies	424,172	4.09
Mortgage-backed Securities	4,803,764	4.02
State or Local Government Bonds	165,199	15.90
Corporate Bonds	4,118,318	9.33
Yankee Bonds	1,067,961	8.32
Foreign Country Bonds	59,287	20.61
Asset-backed Securities	745,044	2.45
Short Term Notes	1,870,915	0.74
Total Debt Securities	$ 17,109,423	
Other Investments		
Guaranteed Investment Account:		
Synthetic Guaranteed Investment Contract (GIC)	$ 1,378,127	
Short Term Investment Pool	166,470	
Total Guaranteed Investment Account	$ 1,544,597	
Futures Options	(128)	
Mutual Funds	6,504,385	
Total Other Investments	$ 8,048,854	
Equity Investments:		
Corporate Stock	$ 35,654,836	
Alternative Equities	7,284,157	
Stock Rights/Warrants	1,283	
Total Equity Investments	$ 42,940,276	
Total Investments	$ 68,098,553 [1]	

[1] Total Investments do not include $23,894 of cash that is included in the cash and cash equivalent investments line on the pension and investments trust funds statements.

Primary Government
Pension Trust and Investment Trust Funds
Fair Value of Investments
As of June 30, 2016
(In Thousands)

Investments	Fair Value	Level 1	Level 2	Level 3
Equity:				
Common Stock	$ 33,835,594	$ 33,805,344	$ 29,275	$ 975
Real Estate Investment Trust	1,281,011	1,280,971	-	40
Other Equity	602,482	524,964	77,450	68
Equity Total	$ 35,719,087	$ 35,611,279	$ 106,725	$ 1,083
Fixed Income:	Blank	Blank	Blank	Blank
Asset-backed Securities	$ 1,031,334	$ -	$ 1,027,094	$ 4,240
Mortgage-backed Securities	5,316,987	-	5,285,716	31,271
Corporate Bonds	5,509,889	-	5,509,889	-
Government Issues	5,049,387	-	5,041,979	7,408
Other Debt Instruments	413,382	-	413,382	-
Fixed Income Total	$ 17,320,979	$ -	$17,278,060	$ 42,919
Investment Derivatives - Options	(128)	(128)	-	-
Total Investments by Fair Value	$ 53,039,938	$ 35,611,151	$17,384,785	$ 44,002

Investments Measured at Net Asset Value (NAV): Blank	NAV	Unfunded Commitments
Private Equity	$ 4,557,041	$ 3,217,911
Real Estate	606,009	454,298
Resource	1,143,118	987,308
Yield Oriented	909,063	753,474
Total Investments at NAV	$ 7,215,231	$ 5,412,991
Total Investments by Fair Value and NAV	$60,255,169[1]	

[1] Total investments are less than the cash, cash equivalent investments, and investments shown on the face of the financial statements since cash and short-term investments are not leveled under GASB 72 so are not included in this table.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The state does not have a formal policy regarding concentration of credit risk for rated corporate debt securities that are among the top four quality categories. For other types of investments, Minnesota Statutes, Section 11A.24, established investment parameters which are outlined in the "Credit Risk of Debt Security Investments" section of this note. SBI determined the concentration of credit risk based on security identification number.

The state did not have exposure to a single issuer that equals or exceeds five percent of the overall portfolio as of June 30, 2016, and therefore, there is no concentration of credit risk.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SBI has established guidelines to be used by investment managers for international investing. Under these guidelines, countries are categorized based on a country's legal structures and standings regarding worker and human rights issues. Managers may invest in countries with legal structures that generally respect the rights of workers and human rights without additional notification of SBI. Investment managers who wish to invest in other countries must either notify SBI in writing or appear before SBI, depending on the country involved. Managers with authority to invest in foreign securities are given authority to hedge foreign currency through forward contracts to avoid currency losses.

The primary government, excluding pension trust and investment trust funds, had no exposure to foreign currency risk as of June 30, 2016. The following table shows the foreign currency risk for the pension trust and investment trust funds.

Pension Trust and Investment Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
As of June 30, 2016
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 872	$ -	$ 390,681
Brazilian Real	33	-	82,146
Canadian Dollar	3,927	513	507,139
Danish Krone	(103)	-	153,102
Euro Currency	3,432	7,254	2,326,954
Hong Kong Dollar	1,902	-	554,055
Indian Rupee	48	-	170,777
Indonesian Rupiah	345	-	55,019
Japanese Yen	15,978	15,986	1,455,766
New Taiwan Dollar	226	-	155,278
New Zealand Dollar	399	-	19,510
Pound Sterling	8,386	15,359	1,157,814
Singapore Dollar	197	-	70,865
South African Rand	492	-	98,468
South Korean Won	-	-	161,826
Swedish Krona	353	-	157,969
Swiss Franc	97	-	531,468
Other	721	-	271,661
Total	$ 37,305	$ 39,112	$ 8,320,498

Custodial Risk – Investments

Custodial risk for investments is the risk that, in the event of a failure of the counterparty, the state will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments are held in the state's name and collateral for repurchase agreements is held in the state's name by third party agents. The primary government does not have a formal policy for custodial credit risk.

Securities Lending

Minnesota Statutes do not prohibit the state from participating in securities lending transactions. The state has, by a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to act as agent in lending state securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, State Street lent, on behalf of the state, certain securities held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. State Street does not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to at least 100 percent of the fair value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to indemnify the state in the event of default by a borrower. There were no failures by any borrower to return loaned

securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default of the borrower.

During the fiscal year, the state and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested in a collective investment pool. As of June 30, 2016, such investment pool had an average duration of 12.39 days and an average weighted maturity of 88.83 days for USD collateral.

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2016, the state had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

The fair value of collateral held and the fair value of securities on loan for the state as of June 30, 2016, were $14,769,029,000 and $14,248,837,000, respectively. Securities received as collateral for which the state does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Cash collateral of $8,463,536,000 is reported in the Fiduciary Funds Statement of Net Position as an asset and correspondingly on the statement as a liability. Some component units that are allocated a portion of the collateral have a December 31 year end.

Component Units

Housing Finance Agency

As of June 30, 2016, the Housing Finance Agency (HFA) had $530,172,000 of cash and cash equivalents and $1,715,288,000 of investments. As of June 30, 2016, $525,590,000 of deposits and $1,626,869,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 1.8 – 27.7 years.

HFA cash equivalents included $4,585,000 of investment agreements, which are generally uncollateralized interest-bearing contracts.

HFA investments had an estimated fair value of $1,715,288,000 as of June 30, 2016. Included in these investments were $10,520,000 in U.S. Treasuries (not rated), and $1,580,201,000 in U.S. Agencies having an S&P rating of AA+ and Moody's Investors Services rating of Aaa. An additional $31,565,000 in municipal debt investments had an S&P rating of AA and Moody's Investors Services rating of Aa2.

HFA measured the fair value of its investments using the three-tier hierarchy of input quality specified by GASB Statement No. 72 "Fair Value Measurement and Application." HFA measured investments of $65,386,000 and $1,556,899,000 using Level 1 and Level 2 inputs, respectively. The remaining investments of $93,003,000 related to premiums/discounts and unrealized appreciation/depreciation.

HFA had investments in single issuers as of June 30, 2016, excluding investments issued or explicitly guaranteed by the U.S. Government, that exceeded five percent or more of total investments. These investments of $408,292,000 were issued by Federal National Mortgage Association.

HFA entered into interest rate swap agreements that were considered to be derivative instruments under GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments." These interest rate swap agreements have been determined to be effective hedges and were reported at fair value as of June 30, 2016, as a liability called "Interest Rate Swap Agreements." The inception-to-date change in fair value as of June 30, 2016, was reported in "Accumulated Decrease in Fair Value of Hedging Derivatives" deferred outflows of resources.

As of June 30, 2016, HFA had four and seven interest rate swap agreements with counterparties the Bank of New York Mellon and Royal Bank of Canada for total notional amounts of $46,765,000 and $143,830,000 having fair values of ($3,206,000) and ($8,558,000), respectively. For these counterparties,

the fair values for the fiscal year ended June 30, 2016, increased $773,000 and decreased $1,177,000, respectively.

The fair value of the swap represents HFA's potential exposure to credit risk. The counterparties, the Bank of New York Mellon and Royal Bank of Canada, have been rated by Moody's as Aa1 and Aa3, respectively, and by S&P as AA- and AA-, respectively.

All swaps are pay-fixed/receive-variable with initial notional amounts that matched the original principal amounts and have terms which reduce the notional amounts to approximately follow the anticipated reductions in outstanding principal. HFA has also purchased the right, generally based upon a 300 percent PSA prepayment rate (the standard prepayment model of the Security Industries and Financial Market Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match outstanding principal amounts of the associated bonds. HFA also has the right to terminate outstanding swaps in whole or in part at any time if it is not in default. The swap contracts may also be terminated by the counterparties but are generally limited to HFA payment default or other HFA defaults that remain uncured for 30 days.

The variable rate HFA pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month taxable LIBOR rate or the SIFMA index rate. This exposes HFA to basis risk (the risk that the rates do not equal), and this risk will vary over time due to inter-market conditions.

HFA assumes the risk that changes in the tax code may vary from the historical long-term relationship between taxable and tax-exempt short-term interest rates for economic reasons.

Metropolitan Council

As of December 31, 2015, the Metropolitan Council (MC), had $318,967,000 in cash and cash equivalents and $596,608,000 in investments. Of this amount, $809,222,000 was subject to rating. Using the Moody's Investors Services rating scale, $599,978,000 of these investments were rated Aaa, while $209,244,000 were not rated. U.S. Treasury State and Local Government Securities (SLGS) of $67,134,000 and net outstanding checks of $39,219,000 comprise the remaining cash and investment amount.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. Of the $206,663,000 U.S. agency investments, MC has a custodial credit risk exposure of $2,016,000 because the related securities are held by a custodial agent in the broker's name.

MC measured the fair value of its investments using the three-tier hierarchy of input quality specified by GASB Statement No. 72 "Fair Value Measurement and Application." MC measured investments of $223,100,000 and $470,457,000 using Level 1 and Level 2 inputs, respectively. MC measured another $182,799,000 of investments at the net asset value, while the remaining $39,219,000 was cash and cash equivalents.

MC has adopted a simulation model of reporting investment sensitivity to fluctuation in interest rates. Assumptions are made of interest rate changes of 50, 100, 150, and 200 basis points with interest rate changes occurring on December 31, 2015. The investment portfolio has an average yield of 1.29 percent, modified duration of 2.67 years, effective duration of 1.80 years, and convexity of -0.45.

The following table presents the estimated fair value of MC investments subject to interest rate risk using the simulation model.

Major Component Unit
Metropolitan Council
Fair Value of Investments
As of December 31, 2015
(In Thousands)

	Estimated Fair Value
Fair Value of Portfolio Before Basis Point Increase	$ 918,322
Fair Value of Portfolio After Basis Point Increase of:	
50 Points	$ 831,867
100 Points	$ 826,878
150 Points	$ 821,731
200 Points	$ 816,657

MC has used commodity futures as an energy forward pricing mechanism (EFPM) permitted by Minnesota Statutes, Section 473.1293. Statutorily, MC may not hedge more than 100 percent of the projected consumption of any of its commodities and only up to 23 months into the future. Since 2004, MC has hedged most of its annual diesel fuel consumption. The hedging transactions are separate from fuel purchase transactions. For calendar year 2015, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2015, MC had 314 New York Mercantile Exchange (NYMEX) heating oil futures contracts (13.2 million gallons) acquired from May 13, 2014, through December 29, 2015, to terminate on dates from January 29, 2016, through October 31, 2017. As of December 31, 2015, the heating oil futures contracts had a fair value of $17,554,000.

MC is using NYMEX heating oil futures to hedge diesel fuel consumption. MC will be exposed to basis risk if the prices significantly deviate from each other. Historically, there has been a strong correlation between the two products.

University of Minnesota

As of June 30, 2016, the University of Minnesota (U of M), including its discretely presented component units, had $565,942,000 of cash and cash equivalents and $4,602,669,000 of investments. U of M's discretely presented component units do not classify investments according to risk because these entities prepare their financial statements under standards set by the Financial Accounting Standards Board. Excluding discretely presented component units, U of M reported cash and cash equivalents of $457,807,000 and investments of $2,129,446,000.

As of June 30, 2016, U of M's bank balance of $342,898,000 was uninsured and uncollateralized.

U of M maintains centralized management for substantially all of its cash and investments. The Board of Regents establishes U of M's investment policies and objectives. U of M uses internal investment pools designed to meet respective investment objectives within established risk parameters for each pool.

U of M has established policies to address the various types of investment risks. U of M uses S&P ratings and duration as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. As of June 30, 2016, $1,414,309,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $1,209,226,000 was rated AA or better
- $173,240,000 was rated BBB to A
- $31,843,000 was not rated

The securities subject to interest rate risk were comprised of the following:

- $656,037,000 in government agencies with weighted average maturities of 1.0 to 1.7 years
- $103,372,000 in mortgage-backed securities with a weighted average maturity of 18.9 years
- $343,637,000 in cash and cash equivalents with a weighted average maturity of 0.0 years
- $279,420,000 in mutual funds with a weighted average maturity of 5.4 years

As of June 30, 2016, U of M had $242,036,000 of equity investments subject to foreign currency risk. The two largest components of this amount are $73,976,000 in Euro Currency and $39,564,000 in Japanese Yen.

U of M measured the fair value of its investments using the three-tier hierarchy of input quality specified by GASB Statement No. 72 "Fair Value Measurement and Application." MC measured investments of $317,989,000; $821,951,000; and $3,704,000 using Level 1, 2 and 3 inputs, respectively. U of M measured another $985,802,000 of investments at the net asset value.

As of June 30, 2016, U of M has one pay-fixed, receive-variable swap that is considered ineffective. At June 30, 2016, the total fair value was ($3,677,000), with changes in fair value reported as investment income.

U of M is exposed to interest rate risk and termination risk upon default of the other party.

Nonmajor Component Units

Nonmajor Component Units
Cash, Cash Equivalents, and Investments
As of December 31, 2015, or June 30, 2016, as applicable
(In Thousands)

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 2,307	$ 20,173
National Sports Center Foundation	995	-
Office of Higher Education	395,937	-
Public Facilities Authority	449,995	33,015
Rural Finance Authority	12,982	-
Workers' Compensation Assigned Risk Plan	11,038	294,251
Minnesota Sports Facilities Authority	2,889	4,203
Total	$ 876,143	$ 351,642

Note 3 – Disaggregation of Receivables

Primary Government
Components of Net Receivables
Government-wide
As of June 30, 2016
(In Thousands)

	Governmental Activities			
	General Fund[2]	Federal Fund	Nonmajor Governmental Funds[1]	Total
Taxes:				
Corporate and Individual	$ 800,053	$ -	$ -	$ 800,053
Sales and Use	400,764	-	23,892	424,656
Property	397,622	-	-	397,622
Health Care Provider	314,491	-	111,033	425,524
Motor Vehicle/Fuel	-	-	73,127	73,127
Child Support	45,169	45,240	322	90,731
Workers' Compensation	-	-	93,124	93,124
Other	316,111	350,324	109,223	775,658
Net Receivables	$ 2,274,210	$ 395,564	$ 410,721	$ 3,080,495

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Insurance Premiums	$ -	$ 302,783	$ -	$ 302,783
Tuition and Fees[3]	59,715	-	-	59,715
Other	2,114	-	34,226	36,340
Net Receivables	$ 61,829	$ 302,783	$ 34,226	$ 398,838
Total Government-wide Net Receivables				$ 3,479,333

[1]Includes $110,443 for Internal Service Funds, less Internal Service Fund eliminations of $106,313 among Governmental Activities.

[2]Includes $1,465 Interfund Receivables from Fiduciary Funds reclassified to Accounts Receivable on the Government-wide Statement of Net Position.

[3]The revenue associated with tuition and fees is reduced by a scholarship allowance of $310,882.

Accounts receivable are reported net of allowances for uncollectible amounts. Significant uncollectible amounts are:

- Corporate and Individual Taxes $122,353,000
- Sales and Use Taxes $34,886,000
- Child Support $198,418,000

Receivable balances not expected to be collected within one year are:

- Corporate and Individual Taxes $182,098,000
- Sales and Use Taxes $79,667,000
- Child Support $88,007,000
- Health Care Provider $92,363,000
- Other Receivables $93,606,000

Note 4 – Loans and Notes Receivable

Primary Government
Loans and Notes Receivable, Net of Allowance
As of June 30, 2016
(In Thousands)

	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund	Total Loans and Notes Receivable
Student Loan Program	$ -	$ -	$ -	$ -	$ 28,501	$ 28,501
Economic Development	46,245	4,446	49,882	-	-	100,573
School Districts	48,497	-	-	-	-	48,497
Agricultural, Environmental and Energy Resources	-	-	57,379	-	-	57,379
Transportation	-	-	13,372	47	-	13,419
Other	5,223	-	523	-	-	5,746
Total	$ 99,965	$ 4,446	$ 121,156	$ 47	$ 28,501	$ 254,115

Component Units
Loans and Notes Receivable
As of December 31, 2015, or June 30, 2016, as applicable
(In Thousands)

Housing Finance Agency	$ 1,224,448
Metropolitan Council	45,725
University of Minnesota	85,119
Agricultural and Economic Development Board	176
Office of Higher Education	558,706
Public Facilities Authority	1,862,597
Rural Finance Authority	54,598
Total	$ 3,831,369

Note 5 – Interfund Transactions

Primary Government

During normal operations, the state processes routine transactions between funds, including loans, expenditures, and transfers of resources for administrative and program services, debt service, and compliance with legal mandates.

In the fund financial statements, these transactions are generally recorded as transfers in/out and interfund receivables/payables. Transfers generally represent legally authorized transfers between funds authorized to receive revenue and funds authorized to make expenditures, and do not represent reimbursement of expenditures.

Primary Government
Interfund Receivables and Payables
As of June 30, 2016
(In Thousands)

Due to the General Fund From:	
Federal Fund	$ 1,173
Nonmajor Governmental Funds	7,675
Nonmajor Enterprise Funds	16,912
Internal Service Funds	60,017
Fiduciary Funds	1,465
Total Due to General Fund From Other Funds	$ 87,242
Due to the Federal Fund From:	
Nonmajor Governmental Funds	$ 3,230
Unemployment Insurance Fund	53
Total Due to Federal Fund From Other Funds	$ 3,283
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	$ 31,991
Total Due to State Colleges and Universities Fund From Other Funds	$ 31,991
Due to the Nonmajor Enterprise Funds From:	
General Fund	$ 1,002
Nonmajor Enterprise Funds	1,773
Total Due to Nonmajor Enterprise Funds From Other Funds	$ 2,775
Due to Fiduciary Funds From:	
Fiduciary Funds	$ 7,246
Total Due to Fiduciary Funds From Other Funds	$ 7,246
Due to the Nonmajor Governmental Funds From:	
General Fund	$ 71,793
Unemployment Insurance Fund	14,832
Nonmajor Governmental Funds	24,044
Nonmajor Enterprise Funds	2,149
Total Due to Nonmajor Governmental Funds From Other Funds	$ 112,818

Primary Government
Interfund Transfers
Year Ended June 30, 2016
(In Thousands)

Transfers to the General Fund From:	
Federal Fund	$ 56,888
Nonmajor Governmental Funds	186,956
Nonmajor Enterprise Funds	118,452
Internal Service Funds	26,085
Total Transfers to General Fund From Other Funds	$ 388,381
Transfers to the Federal Fund From:	
Unemployment Insurance Fund	$ 48
Nonmajor Governmental Funds	1,617
Total Transfers to Federal Fund From Other Funds	$ 1,665
Transfers and Capital Contributions to the State Colleges and Universities Fund From:	
General Fund	$ 673,038
Nonmajor Governmental Funds	63,179
Total Transfers and Capital Contributions to State Colleges and Universities Fund From Other Funds	$ 736,217
Transfers to Fiduciary Funds From:	
General Fund	$ 52,985
Fiduciary Funds	20,953
Total Transfers to Fiduciary Funds From Other Funds	$ 73,938
Transfers to the Nonmajor Governmental Funds From:	
General Fund	$ 920,227
Federal Fund	4,540
Unemployment Insurance Fund	1,213
Nonmajor Governmental Funds	202,768
Nonmajor Enterprise Funds	27,911
Internal Service Funds	4,165
Total Transfers to Nonmajor Governmental Funds From Other Funds	$ 1,160,824
Transfers and Capital Contributions to the Nonmajor Enterprise Funds From:	
General Fund	$ 32,384
Government-wide Capital Assets	40,866
Total Transfers and Capital Contributions to Nonmajor Enterprise Funds From Other Funds	$ 73,250
Transfers to Internal Service Funds From:	
General Fund	$ 55
Total Transfers to Internal Service Funds From Other Funds	$ 55

Component Units

Primary Government and Component Units
Receivables and Payables
As of December 31, 2015, or June 30, 2016, as applicable
(In Thousands)

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units:		
Housing Finance Agency	$ 114	$ -
Metropolitan Council	78,596	-
University of Minnesota	14,302	14,391
Total Major Component Units	$ 93,012	$ 14,391
Nonmajor Component Units	$ 19,214	$ 55,179
Total Component Units	$ 112,226	$ 69,570

	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	$ -	$ 26,614
Federal Fund	-	5,183
Total Major Governmental Funds	$ -	$ 31,797
Nonmajor Governmental Funds	$ 65,561	$ 29,170
Nonmajor Enterprise Funds	$ -	$ 6
Total Primary Government	$ 65,561	$ 60,973[1]

[1] Due to Component Units on the Government-wide Statement of Net Position totals $68,790 and includes $7,817 of loans payable to the Public Facilities Authority (component unit) that are not fund level liabilities.

The Due To Primary Government balance exceeds the Due From Component Units balance by $4,009,000 because the Metropolitan Council, the Workers' Compensation Assigned Risk Plan, the National Sports Center Foundation, and the Minnesota Sports Facilities Authority use a different fiscal year end than the primary government. The $51,253,000 difference between the Due From Primary Government balance and the Due To Component Units balance is also due to these different fiscal year ends as well as the $7,817,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

Primary Government
Capital Asset Activity
Government-wide Governmental Activities
Year Ended June 30, 2016
(In Thousands)

	Beginning	Additions	Deductions	Ending
Governmental Activities				
Capital Assets not Depreciated:				
Land [1]	$ 2,483,327	$ 90,191	$ (3,880)	$ 2,569,638
Buildings, Structures, Improvements	41,443	-	-	41,443
Construction in Progress	323,523	302,441	(193,747)	432,217
Development in Progress	124,708	51,070	(115,744)	60,034
Infrastructure	9,552,323	635,650	(8,399)	10,179,574
Easements	284,543	29,218	(646)	313,115
Art and Historical Treasures	7,223	14	(69)	7,168
Total Capital Assets not Depreciated	$ 12,817,090	$ 1,108,584	$ (322,485)	$ 13,603,189
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 2,939,505	$ 194,299	$ (38,119)	$ 3,095,685
Infrastructure	284,274	29,292	(568)	312,998
Internally Generated Computer Software	98,370	75,033	(8,574)	164,829
Easements	5,433	356	-	5,789
Equipment, Furniture, Fixtures	700,685	82,871	(35,717)	747,839
Total Capital Assets Depreciated	$ 4,028,267	$ 381,851	$ (82,978)	$ 4,327,140
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (1,161,210)	$ (99,236)	$ 13,032	$ (1,247,414)
Infrastructure	(68,025)	(22,053)	568	(89,510)
Internally Generated Computer Software	(40,049)	(19,086)	1	(59,134)
Easements	(1,476)	(356)	-	(1,832)
Equipment, Furniture, Fixtures	(451,234)	(45,603)	28,809	(468,028)
Total Accumulated Depreciation	$ (1,721,994)	$ (186,334)	$ 42,410	$ (1,865,918)
Total Capital Assets Depreciated, Net	$ 2,306,273	$ 195,517	$ (40,568)	$ 2,461,222
Governmental Act. Capital Assets, Net	$ 15,123,363	$ 1,304,101	$ (363,053)	$ 16,064,411

[1] The beginning balance has been restated for the prior period adjustment.

Prior Period Adjustment Governmental Activities: During fiscal year 2016, land increased by $93,347,000 resulting in a prior period adjustment. This increase was attributable to the capitalization of donated land that was previously unrecorded and adjusting for land that was disposed of at fair value rather than at cost.

Capital outlay expenditures in the governmental funds totaled $1,173,989,000 for fiscal year 2016. Donations of general capital assets received during fiscal year 2016 were valued at $20,484,000. Transfers of $265,164,000 were primarily from construction in progress for completed projects. Internal service funds additions were $30,798,000.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2016, consisted of buildings with a cost of $180,050,000.

Primary Government
Capital Asset Activity
Government-wide Business-type Activities and Fiduciary Funds
Year Ended June 30, 2016
(In Thousands)

	Beginning	Additions	Deductions	Ending
Business-type Activities				
Capital Assets not Depreciated:				
Land	$ 92,020	$ 584	$ (192)	$ 92,412
Construction in Progress	223,113	142,527	(191,912)	173,728
Total Capital Assets not Depreciated	$ 315,133	$ 143,111	$ (192,104)	$ 266,140
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 3,264,430	$ 207,236	$ (11,793)	$ 3,459,873
Infrastructure	95	-	-	95
Library Collections	42,519	5,278	(6,651)	41,146
Internally Generated Computer Software	12,244	44,968	(2,163)	55,049
Equipment, Furniture, Fixtures	358,600	17,473	(54,255)	321,818
Total Capital Assets Depreciated	$ 3,677,888	$ 274,955	$ (74,862)	$ 3,877,981
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (1,524,043)	$ (104,028)	$ 9,580	$ (1,618,491)
Infrastructure	(50)	(3)	-	(53)
Library Collections	(24,868)	(5,878)	6,651	(24,095)
Internally Generated Computer Software	(6,426)	(5,793)	2,038	(10,181)
Equipment, Furniture, Fixtures	(249,738)	(24,311)	53,047	(221,002)
Total Accumulated Depreciation	$ (1,805,125)	$ (140,013)	$ 71,316	$ (1,873,822)
Total Capital Assets Depreciated, Net	$ 1,872,763	$ 134,942	$ (3,546)	$ 2,004,159
Business-type Act. Capital Assets, Net	$ 2,187,896	$ 278,053	$ (195,650)	$ 2,270,299
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	$ 429	$ 168	$ -	$ 597
Total Capital Assets not Depreciated	$ 429	$ 168	$ -	$ 597
Capital Assets Depreciated:				
Buildings	$ 29,763	$ 207	$ (207)	$ 29,763
Equipment, Furniture, Fixtures	32,735	5,250	(800)	37,185
Total Capital Assets Depreciated	$ 62,498	$ 5,457	$ (1,007)	$ 66,948
Accumulated Depreciation for:				
Buildings	$ (10,404)	$ (763)	$ -	$ (11,167)
Equipment, Furniture, Fixtures	(6,466)	(2,253)	794	(7,925)
Total Accumulated Depreciation	$ (16,870)	$ (3,016)	$ 794	$ (19,092)
Total Capital Assets Depreciated, Net	$ 45,628	$ 2,441	$ (213)	$ 47,856
Fiduciary Funds, Capital Assets, Net	$ 46,057	$ 2,609	$ (213)	$ 48,453

Transfers-in for Business-type Activities resulted from $191,364,000 from construction in progress for completed projects and $40,866,000 from governmental activities.

Primary Government
Depreciation Expense
Government-wide
Year Ended June 30, 2016
(In Thousands)

Governmental Activities:	
Agricultural, Environmental & Energy Resources	$ 19,896
Economic and Workforce Development	6,214
General Education	6,184
General Government	41,054
Health and Human Services	21,240
Public Safety and Corrections	39,939
Transportation	36,413
Internal Service Funds	15,394
Total Governmental Activities	$ 186,334
Business-type Activities:	
State Colleges and Universities	$ 119,557
Lottery	598
Other	19,858
Total Business-type Activities	$ 140,013

Primary Government
Significant Project Authorizations and Commitments
As of June 30, 2016
(In Thousands)

	Administration	Transportation
Authorization	$ 558,895	$ 1,213,651
Less: Expended through June 30, 2016	(365,822)	(705,036)
Less: Unexpended Commitment	(148,410)	(250,466)
Remaining Available Authorization	$ 44,663	$ 258,149

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation. Total acres on June 30, 2016, were 2,513,081.

Component Units

Component Units
Capital Assets
As of December 31, 2015, or June 30, 2016, as applicable
(In Thousands)

	Major Component Units				
	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Component Units					
Capital Assets not Depreciated:					
Land	$ -	$ 255,990	$ 150,160	$ 27,340	$ 433,490
Construction in Progress	-	390,635	165,099	831,447	1,387,181
Leased Buildings	-	-	163,693	-	163,693
Museums and Collections	-	-	83,167	-	83,167
Easements	-	-	3	-	3
Total Capital Assets not Depreciated	$ -	$ 646,625	$ 562,122	$ 858,787	$ 2,067,534
Capital Assets Depreciated:					
Buildings, Structures, Improvements	$ -	$ 4,290,899	$ 3,944,294	$ 57,371	$ 8,292,564
Infrastructure	-	-	455,329	-	455,329
Internally Generated Software	8,544	-	163,189	-	171,733
Equipment, Furniture, Fixtures	1,876	1,394,683	923,840	3,867	2,324,266
Other Intangibles	-	-	7,165	-	7,165
Total Capital Assets Depreciated	$ 10,420	$ 5,685,582	$ 5,493,817	$ 61,238	$ 11,251,057
Total Accumulated Depreciation	$ (7,637)	$ (2,161,514)	$ (3,028,137)	$ (5,608)	$ (5,202,896)
Total Capital Assets Depreciated, Net[1]	$ 2,783	$ 3,524,068	$ 2,465,680	$ 55,630	$ 6,048,161
Component Units Capital Assets, Net	$ 2,783	$ 4,170,693	$ 3,027,802	$ 914,417	$ 8,115,695

[1] In addition to this amount, the component units of the University of Minnesota had combined capital assets with a net value of $65,070 as of June 30, 2016.

Note 7 – Disaggregation of Payables

Primary Government
Components of Accounts Payable
Government-wide
As of June 30, 2016
(In Thousands)

	Governmental Activities			
	General Fund	Federal Fund	Nonmajor Governmental Funds[1][2]	Total
School Aid Programs	$ 927,614	$ 177,729	$ 1,242	$ 1,106,585
Tax Refunds	639,684	-	-	639,684
Medical Care Programs	593,532	1,055,534	15,093	1,664,159
Grants	237,314	164,316	240,714	642,344
Salaries and Benefits	78,483	15,525	55,566	149,574
Vendors/Service Providers	180,403	22,849	201,471	404,723
Net Payables	$ 2,657,030	$ 1,435,953	$ 514,086	$ 4,607,069

	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 115,452	$ -	$ 7,430	$ 122,882
Vendors/Service Providers	62,507	24,761	69,758	157,026
Net Payables	$ 177,959	$ 24,761	$ 77,188	$ 279,908
Total Government-wide Net Payables				$ 4,886,977

[1] Includes $51,193 for Internal Service Funds.
[2] Amounts are shown net of Internal Service Fund eliminations of $106,313 among Governmental Activities.

Note 8 – Pension and Investment Trust Funds

Primary Government Administered Plans

The state performs a fiduciary role for several pension trust funds. For some of these funds, the state contributes as an employer and/or a non-employer contributing entity, and performs only a fiduciary role for other funds. These trust funds are categorized as either defined benefit or defined contribution (pension trust funds) or investment trust funds.

Three plan administrators, who prepare and publish their own stand-alone comprehensive annual financial reports, including financial statements and required supplementary information, and Minnesota State Colleges and Universities (MnSCU), which publishes a stand-alone pension statement, provide the pension fund information. Each plan administrator accounts for one or more pension plans. Copies of these reports may be obtained directly from the organizations listed below.

Plan Administrator	Plans Covered
Minnesota State Retirement System (MSRS)	State Employees Retirement Fund Correctional Employees Retirement Fund Judges Retirement Fund Legislators Retirement Fund State Patrol Retirement Fund Hennepin County Supplemental Retirement Fund Health Care Savings Fund Unclassified Employees Retirement Fund Minnesota Deferred Compensation Fund
Public Employees Retirement Association (PERA)	General Employees Retirement Fund Police and Fire Fund Public Employees Correctional Fund Volunteer Firefighter Retirement Fund Defined Contribution Fund
Teachers Retirement Association (TRA)	Teachers Retirement Fund
Minnesota State Colleges and Universities	State Colleges and Universities Retirement Fund

See Note 1 – Summary of Significant Accounting and Reporting Policies for addresses of MSRS, PERA, and TRA. The address for MnSCU is included in the "Defined Contribution Funds" section of this note.

Basis of Accounting and Valuation of Investments

The plan administrators prepare financial statements using the accrual basis of accounting which is the basis used to determine the fiduciary net position used by the plans. Member and employer contributions are recognized in the period in which they are earned and become due. Expenses are recognized when the liability is incurred. Benefits and refunds are recognized when due and payable in accordance with the statutory terms of each plan.

During fiscal year 2016, the state implemented GASB Statement No. 72 "Fair Value Measurement and Application." This statement addresses accounting and financial reporting issues related to fair value measurements. Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 – Cash, Investment, and Derivative Investments for more information.

The individual pension trust funds participate in internal investment pools sponsored by the state and administered by the State Board of Investment (SBI). The pools function much like mutual funds, with the various pension trust funds purchasing "units" in the pool rather than individual securities. At year-end, some security purchase and sale transactions entered into by SBI were not settled, resulting in securities trades receivables and payables. These unsettled securities trades are an essential element in determining the fair value of each pension trust fund's pooled investment balance; therefore, the trades are reported in the Combining Statement of Net Position of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2016, this presentation resulted in a negative asset within the total investment pool participation.

Non-Primary Government Administered Plan

The state contributes as a non-employer contributing entity into the St. Paul Teachers' Retirement Fund, but does not perform any other fiduciary responsibilities. Separately-issued financial statements for the St. Paul Teachers' Retirement Fund Association may be obtained at St. Paul Teachers' Retirement Association, 1619 Dayton Avenue, Room 309, St. Paul, MN 55104.

Plan Administrator	Plan Covered
St. Paul Teachers' Retirement Fund Association (SPTRF)	St. Paul Teachers' Retirement Fund

Defined Benefit Plans

Primary Government Administered Multiple-Employer Cost Sharing Plans

The State Employees Retirement Fund (SERF) covers most state employees, the University of Minnesota (component unit) non-faculty employees, and selected metropolitan agency employees. Fifteen employers participate in this plan. The plan provides retirement, survivor, and disability benefits. The annuity benefit formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates if the employee was first hired before July 1, 1989, are 1.2 percent of the member's average salary for the first 10 years of allowable service and 1.7 percent for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of high-five average salary for each year of allowable service. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio declines to less than 80 percent for the most recent actuarial valuation year or 85 percent for two consecutive years, the benefit increase will change to 2.0 percent until the plan again reaches 90 percent funding for two consecutive years. For the prior measurement period, the benefit increase of 2.5 percent was projected to start in 2016 instead of 2044 as in the current measurement period.

The Correctional Employees Retirement Fund (CERF) primarily covers state employees who have direct contact with inmates or patients in Minnesota correctional facilities, the state operated forensic service program, or the Minnesota sex offenders program. Three employers participate in this plan. The plan provides retirement, survivor, and disability benefits. The annuity benefit formula is 2.4 percent of the member's high-five average salary for each year of service for employees hired before July 1, 2010, and 2.2 percent for hires after June 30, 2010. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio declines to less than 80 percent for the most recent actuarial valuation year, or 85 percent for two consecutive years, the benefit increase will decrease to 2.0 percent until the plan again reaches 90 percent funding for two consecutive years. For the prior measurement period, the annual benefit increase of 2.5 percent was projected to start in 2066 instead of indefinitely as in the current measurement period.

The General Employees Retirement Fund (GERF) covers employees of various governmental units and subdivisions, including counties, cities, school districts, and related organizations. Approximately 2,000

employers participate in this plan. The plan provides retirement, survivor, and disability benefits. On January 1, 2015, Minneapolis Employee Retirement Fund (MERF) merged into GERF. The annuity accrual rate for former MERF members is 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the Act. The annuity benefit formula for each type of membership is the greater of the step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on the member's high-five average salary for basic members and for coordinated members are 2.2 and 1.2 percent for the first ten years of service and 2.7 and 1.7 percent for each remaining year, respectively. Annual benefits increase by 1.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio declines to less than 80 percent for the most recent actuarial valuation year or 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. For the prior measurement period, the benefit increase of 2.5 percent was projected to start in 2031 instead of 2036 as in the current measurement period.

The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and subdivisions. Approximately 500 employers participate in this plan. The plan provides retirement, survivor, and disability benefits. The annuity formula for each member is 3.0 percent of the member's high-five average salary for each year of service in that plan. Annual benefits increase by 1.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980.

The Public Employees Correctional Fund (PECF) covers employees in county correctional facilities who have direct contact with inmates. Eighty county employers participate in this plan. The plan provides retirement, survivor, and disability benefits. The annuity formula for each member is 1.9 percent of the member's high-five average salary for each year of service. Annual benefits increase by 1.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years.

The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. On June 30, 2015, the Duluth Teachers Retirement Fund merged into TRF. Prior to the merger, Duluth Teachers Retirement Fund was a self-administered plan using different assumptions as a stand-alone plan. As a result of the merger, the net pension liability as of the beginning of the year was restated to reflect the merged entity. The state's share of the difference in the net pension liability recognized in the prior year and the restated amount is reflected as part of the change in proportionate share of contributions in the current year. Approximately 590 employers participate in this plan. The plan provides retirement, survivor, and disability benefits. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the Act. The annuity formula for the coordinated members is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The annuity formula for Tier I basic members is 2.2 percent for the first ten years and 2.7 percent for each subsequent year and Tier II is 2.7 percent of the member's high-five average salary. The annuity formula for Tier I coordinated members for services prior to July 1, 2006, is 1.2 percent for the first ten years and 1.7 percent each subsequent year of the member's high-five average salary. The annuity formula for Tier I coordinated members for services subsequent to July 1, 2006, is 1.4 percent for the first ten years and 1.9 percent each subsequent year of the member's high-five average salary. The annuity formula for Tier II coordinated members is 1.7 percent for services prior to July 1, 2006, and 1.9 percent for each year subsequent of the member's high-five average salary. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years.

Primary Government Administered Multiple-Employer Cost Sharing Plans
Statutory Contribution Rates
(In Thousands)

	SERF	CERF	GERF[1]	TRF
Statutory Authority			353.27	354.42
Minnesota Chapter(s)	352.04	352.92	353.505	354.435,436
Required Contribution Rate:				
Active Members	5.5%	9.1%	6.5-9.1%	7.5-11.0%
Employer(s)	5.5%	12.9%	7.5-11.8%	7.5-11.5%[2]
Non-Employer Contributing Entity	$ -	$ -	$ 6,000	$ 31,088
Primary Government Contributions – Reporting Period	$ 110,804	$ 30,624	$ 8,540	$ 45,602

(1) MERF was merged with GERF. Required contribution is $6,000 for fiscal year 2016 and 2017, but will increase to $16,000 thereafter.

(2) An additional contribution of 3.64 percent of salary for TRF from Special School District No.1 brings the contribution range to 15.14 percent.

Primary Government Administered Multiple-Employer Cost Sharing Plans
Summary of Pension Amounts
As of June 30, 2016
(In Thousands)

	SERF[1]	CERF[1]	GERF[1]	TRF[1]	Total
Primary Government's Proportionate Share of the Net Pension Liability as an:					
Employer	$ 1,138,125	$ 653,352	$ 32,022	$ 239,701	$ 2,063,200
Non-Employer Contributing Entity	-	-	184,478	602,738	787,216
Total	$ 1,138,125	$ 653,352	$ 216,500	$ 842,439	$ 2,850,416
Primary Government's Total Proportionate Share Percentage of the Net Pension Liability as of:					
Current Year Measurement Date	73.93%	99.86%	4.18%	13.62%	
Prior Year Measurement Date	73.38%	99.80%	0.70%	9.30%	
Deferred Outflows of Resources	$ 145,464	$ 138,153	$ 81,536	$ 288,287	$ 653,440
Deferred Inflows of Resources	$ 1,203,443	$ 120,967	$ 32,685	$ 83,673	$ 1,440,768
Net Pension Expense	$ (260,619)	$ 38,906	$ 41,684	$ 81,386	$ (98,643)

(1) Proportionate share was determined based on the primary government's percentage of employer and non-employer contributing entity contributions into the plan.

Primary Government Administered Multiple-Employer Cost Sharing Plans
Actuarial Assumptions

	SERF[1]	CERF[1]	GERF[1]	TRF[1]
Actuarial Valuation/ Measurement Date	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015
Long-Term Expected Rate	7.90%	7.90%	7.90%	8.00%
20 Year Municipal Bond Rate[2]	3.80%	3.80%	3.80%	3.82%
Experience Study Dates	2004-2008	2006-2011	2004-2008	2004-2008
Inflation	2.75%	2.75%	2.75%	3.00%
Salary Increases	Service Related Rates	Service Related Rates	3.25-11.78%	3.50-12.00%
Payroll Growth	3.50%	3.50%	3.50%	3.75%

(1) For mortality rate assumptions, the RP – 2000 Mortality table for males and females was used and adjusted for mortality improvements based on Scale AA. There are various adjustments in each plan to match experience.

(2) Source: Federal Reserve Board for SERF, CERF, and GERF and the Board of Governors of the Federal Reserve System for TRF.

Primary Government Administered Multiple-Employer Cost Sharing Plans
Deferred Outflows of Resources
As of June 30, 2016
(In Thousands)

	SERF	CERF	GERF	TRF	Total
Difference Between Expected and Actual Experience	$ -	$ 8,651	$ 2,008	$ 43,166	$ 53,825
Changes in Assumption	-	98,532	13,483	64,761	176,776
Change in Proportionate Difference Between Actual Contributions and Proportionate Share of Contributions	34,660	346	57,505	134,758	227,269
Contributions Subsequent to the Measurement Date	110,804	30,624	8,540	45,602	195,570
Total	$ 145,464	$ 138,153	$ 81,536	$ 288,287	$ 653,440

Primary Government Administered Multiple-Employer Cost Sharing Plans
Deferred Inflows of Resources
As of June 30, 2016
(In Thousands)

	SERF	CERF	GERF	TRF	Total
Difference Between Expected and Actual Experience	$ 311,090	$ -	$ 10,915	$ -	$ 322,005
Changes in Assumption	650,364	97,851	-	-	748,215
Net Difference Between Projected and Actual Earnings on Investment	230,450	22,898	19,273	64,432	337,053
Change in Proportionate Share of Contributions	11,539	218	2,497	19,241	33,495
Total	$1,203,443	$ 120,967	$ 32,685	$ 83,673	$1,440,768

Primary Government Administered Multiple-Employer Cost Sharing Plans
Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense
or a Reduction in Net Pension Liability
As of June 30, 2016
(In Thousands)

	SERF	CERF	GERF	TRF	Total
2017	$ (385,067)	$ (12,526)	$ 14,919	$ 23,823	$ (358,851)
2018	(385,067)	(12,526)	14,921	23,823	(358,849)
2019	(385,066)	(12,524)	13,612	23,824	(360,154)
2020	(13,583)	3,202	(3,141)	56,321	42,799
2021	-	20,936	-	31,221	52,157
Net Pension Expense	$(1,168,783)	$ (13,438)	$ 40,311	$ 159,012	$ (982,898)
Deferred Outflow of Resources as a Reduction to Net Pension Liability	110,804	30,624	8,540	45,602	195,570
Net Deferred Outflows (Inflows) of Resources	$(1,057,979)	$ 17,186	$ 48,851	$ 204,614	$ (787,328)

Non-Primary Government Administered Multiple-Employer Cost Sharing Plans

The St. Paul Teachers' Retirement Fund (SPTRF) covers teachers and other related professionals employed by St. Paul Public Schools, St. Paul College, charter schools within the City of St. Paul, and SPTRF staff. The plan provides retirement, survivor, and disability benefits. Members hired before July 1, 1989, are eligible for Tier I or II benefits, whichever results in the highest benefits. The benefit formula for Tier I members is 1.2 percent of the members high-five average salary for the first ten years of service and 1.7 percent for subsequent years of service for services rendered prior to July 1, 2015, when these rates increase to 1.4 percent and 1.9 percent, respectively. The benefit formula for Tier II members is 1.7 percent of the members high-five average salary for years of service rendered prior to July 1, 2015, when this rate increases to 1.9 percent. Annual benefits increase by 1.0 percent each year, 2.0 percent if the plan is funded at least 80 percent, and up to 2.5 percent if the plan is funded at least 90 percent. For the prior measurement period, the benefit increase if the plan is funded at least 90 percent was up to 5.0 percent.

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Statutory Contribution Rates
(In Thousands)

	SPTRF
Statutory Authority	354A.12
Required Contribution Rate:	
Active Members	7.0-9.5%[1]
Employer(s)	6.0-9.5%[1]
Primary Government as Non-Employer Contributing Entity - Statutory Requirement	$ 10,665
Primary Government Contributions - Reporting Period	$ 10,729

[1] Required contribution rates increase to 7.50 to 10.0 percent and 6.25 to 9.75 percent for members and employers, respectively, on June 30, 2016.

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Summary of Pension Amounts
As of June 30, 2016
(In Thousands)

	SPTRF[1]
Primary Government's Proportionate Share of the Net Pension Liability as an:	
Employer	$ 1,385
Non-Employer Contributing Entity	171,776
Total	$ 173,161
Primary Government's Total Proportionate Share Percentage as of:	
Current Measurement Date	29.76%
Prior Measurement Date	30.65%
Deferred Outflows of Resources	$ 17,808
Deferred Inflows of Resources	$ 15,071
Net Pension Expense	$ 10,087

[1] Proportionate share was determined based on the Primary Government's percentage of employer and non-employer contributing entity contributions into the plan.

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Actuarial Assumptions

	SPTRF[1]
Actuarial Valuation/Measurement Date	June 30, 2015
Long-Term Expected Rate	8.00%
20 Year Municipal Bond Rate[2]	3.80%
Experience Study Dates	2006-2011
Inflation	3.00%
Salary Increases	4.00-8.90%
Payroll Growth	4.00%

[1] For mortality rate assumptions, the RP – 2000 Mortality table for males and females was used and adjusted for mortality improvements based on Scale AA to 2020, set back one year for males, and set back three years for females.

[2] Source: Federal Reserve Board

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Deferred Outflows of Resources
As of June 30, 2016
(In Thousands)

	SPTRF
Changes in Assumption	$ 7,079
Contributions Subsequent to the Measurement Date	10,729
Total	$ 17,808

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Deferred Inflows of Resources
As of June 30, 2016
(In Thousands)

	SPTRF
Difference Between Expected and Actual Experience	$ 6,983
Net Difference Between Projected and Actual Earnings on Investment	3,856
Change in Proportionate Share of Contributions	4,232
Total	$ 15,071

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense or a Reduction in Net Pension Liability
As of June 30, 2016
(In Thousands)

	SPTRF
2017	$ (3,084)
2018	(3,084)
2019	(3,081)
2020	1,257
Net Pension Expense	$ (7,992)
Deferred Outflow of Resources as a Reduction to Net Pension Liability	10,729
Net Deferred Outflows (Inflows) of Resources	$ 2,737

Primary Government Administered Multiple-Employer Agent Plan

The Volunteer Firefighter Retirement Fund (VFRF) was established on January 1, 2010, as a lump-sum defined benefit plan largely funded by fire state aid and covers volunteer firefighters. Members do not contribute to the plan. Employer contributions are determined annually. There are 92 employers participating in this plan. If fire state aid plus investment income are not expected to cover the normal cost of benefits during the next calendar year, an employer contribution is calculated and payable by the end of the next calendar year. Benefits are determined by employee years of service multiplied by a benefit level chosen by the entity sponsoring the fire department from 20 possible levels ranging from $500 to $7,500 per year of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353G. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

Primary Government Administered Single-Employer Plans

The Judges Retirement Fund (JRF) covers judges of the Supreme Court, appellate, and district courts. The plan provides retirement, survivor, and disability benefits. The annuity benefit formula for Tier I program judges is 2.7 percent of the high-five average salary for each year of service prior to June 30, 1980, and 3.2 percent for each year thereafter up to 76.8 percent. The annuity benefit formula for Tier II program judges is 2.5 percent of the high-five average salary for each year of service. Annual benefits increase by 1.75 percent each year and 2.0 percent if the plan is funded at least 70 percent for two consecutive years, and 2.5 percent if the plan is funded at least 90 percent.

The Legislators Retirement Fund (LRF) covers constitutional officers and certain members of the state's House of Representatives and Senate who were first elected prior to July 1, 1997, and chose to retain coverage under this plan. The plan provides retirement and survivor benefits. The annuity benefit formula ranges from 2.5 percent to 5.0 percent of high-five average salary for each year of service depending on a member's length of service. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio for the State Employees Retirement Fund declines to less than 80 percent for the most recent actuarial valuation year or 85 percent for two consecutive years, the benefit increase will decrease to 2.0 percent until the plan reaches a 90 percent funding ratio for two consecutive years. For the prior measurement period, the benefit increase of 2.5 percent was projected to start in 2015 instead of 2044. This plan is closed to new entrants.

The State Patrol Retirement Fund (SPRF) covers state troopers, conservation officers, and certain crime bureau and gambling enforcement agents. The plan provides retirement, survivor, and disability benefits. The annuity is 3.0 percent of high five average salary for each year of allowable service up to 33 years; members with at least 28 years of service as of July 1, 2013, are not subject to this limit. Annual benefits increase by 1.0 percent each year and 1.5 percent if the plan is funded at least 85 percent for two consecutive years, and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 1.5 percent increase, the funding ratio declines to less than 75 percent for the most recent actuarial valuation year or 80 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. For the prior measurement period, the benefit increase was projected as 1.0 percent through 2018, 1.5 percent through 2045, and 2.5 percent thereafter instead of 1.0 percent through 2031, 1.5 percent through 2052, and 2.5 percent thereafter as in the current measurement period.

Primary Government Administered Single-Employer Plans
Statutory Contribution Rates
(In Thousands)

	JRF	LRF	SPRF
Statutory Authority	490.123	3A.03	352B.02
Required Contribution Rate:			
Active Members	7.0-9.0%	9.0%	13.4%
Employer	22.5%	N/A[1]	20.1%
Primary Government Contributions – Reporting Period	$ 10,219	$ 5,087	$ 13,938

[1] Employer contributions are based on a pay-as-you-go basis.

Primary Government Administered Single-Employer Plans
Membership Statistics

	JRF	LRF	SPRF
Members (or their beneficiaries) Currently Receiving Benefits	346	377	1,027
Members Entitled To, But Not Receiving Benefits	16	56	52
Active Members	312	23	843

Primary Government Administered Single-Employer Plans
Summary of Pension Amounts
As of June 30, 2016
(In Thousands)

	JRF	LRF	SPRF	Total
Net Pension Liability	$ 236,392	$ 140,923	$ 173,705	$ 551,020
Deferred Outflows of Resources	$ 30,624	$ 5,087	$ 33,976	$ 69,687
Deferred Inflows of Resources	$ 13,404	$ 487	$ 33,486	$ 47,377
Net Pension Expense	$ 17,706	$ 5,554	$ 13,518	$ 36,778

Primary Government Administered Single-Employer Plans
Actuarial Assumptions

	JRF[1]	LRF[1]	SPRF[1]
Actuarial Valuation/Measurement Date	June 30, 2015	June 30, 2015	June 30, 2015
Long-Term Expected Rate	7.90%	7.90%	7.90%
20 Year Municipal Bond Rate[2]	3.80%	3.80%	3.80%
Experience Study Dates	2007-2011	2012	2006-2011
Inflation	2.75%	2.75%	2.75%
Salary Increases	2.75%	5.0%	Service Related Rates
Payroll Growth	2.75%	N/A	3.50%

(1) For mortality rate assumptions, the RP – 2000 Mortality table for males and females was used and adjusted for mortality improvements based on Scale AA. There are various adjustments in each plan to match experience.

(2) Source: Federal Reserve Board

Primary Government Administered Single-Employer Plans
Schedule of Net Pension Liability
As of June 30, 2016
(In Thousands)

	JRF	LRF	SPRF	Total
Total Pension Liability (TPL)				
Service Cost	$ 12,251	$ 428	$ 16,144	$ 28,823
Interest on the Total Pension Liability	21,773	6,113	63,753	91,639
Difference Between Expected and Actual Experience of the Total Pension Liability	(4,366)	(7,303)	(12,855)	(24,524)
Changes in Assumptions	21,696	7,057	-	28,753
Benefit Payments, Including Refunds of Member Contributions	(21,893)	(8,441)	(55,480)	(85,814)
Net Change in Total Pension Liability	$ 29,461	$ (2,146)	$ 11,562	$ 38,877
Total Pension Liability – Beginning	$ 381,511	$ 146,499	$ 826,673	$ 1,354,683
Total Pension Liability – Ending	$ 410,972	$ 144,353	$ 838,235	$ 1,393,560
Fiduciary Net Position (FNP)				
Contributions – Employer	$ 9,776	$ 3,216	$ 14,763	$ 27,755
Contributions – Member	3,629	153	9,174	12,956
Net Investment Income	7,572	281	28,903	36,756
Benefit Payments, Including Refunds of Member Contributions	(21,893)	(8,441)	(55,480)	(85,814)
Pension Plan Administrative Expenses	(60)	(37)	(170)	(267)
Net Change in Plan Fiduciary Net Position	$ (976)	$ (4,828)	$ (2,810)	$ (8,614)
Plan Fiduciary Net Position – Beginning	$ 175,556	$ 8,258	$ 667,340	$ 851,154
Plan Fiduciary Net Position – Ending	$ 174,580	$ 3,430	$ 664,530	$ 842,540
Net Pension Liability (NPL)	$ 236,392	$ 140,923	$ 173,705	$ 551,020

Primary Government Administered Single-Employer Plans
Deferred Outflows of Resources
As of June 30, 2016
(In Thousands)

	JRF	LRF	SPRF	Total
Difference Between Expected and Actual Experience	$ 3,048	$ -	$ -	$ 3,048
Changes in Assumption	17,357	-	20,038	37,395
Contributions Subsequent to the Measurement Date	10,219	5,087	13,938	29,244
Total	$ 30,624	$ 5,087	$ 33,976	$ 69,687

Primary Government Administered Single-Employer Plans
Deferred Inflows of Resources
As of June 30, 2016
(In Thousands)

	JRF	LRF	SPRF	Total
Difference Between Expected and Actual Experience	$ 3,493	$ -	$ 14,559	$ 18,052
Changes in Assumption	5,050	-	-	5,050
Net Difference Between Projected and Actual Earnings on Investment	4,861	487	18,927	24,275
Total	$ 13,404	$ 487	$ 33,486	$ 47,377

Primary Government Administered Single-Employer Plans
Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense
or a Reduction in Net Pension Liability
As of June 30, 2016
(In Thousands)

	JRF	LRF	SPRF	Total
2017	$ 782	$ (174)	$ (5,907)	$ (5,299)
2018	782	(174)	(5,907)	(5,299)
2019	780	(173)	(5,907)	(5,300)
2020	4,657	34	6,417	11,108
2021	-	-	(2,144)	(2,144)
Net Pension Expense	$ 7,001	$ (487)	$ (13,448)	$ (6,934)
Deferred Outflow of Resources as a Reduction to Net Pension Liability	10,219	5,087	13,938	29,244
Net Deferred Outflows (Inflows) of Resources	$ 17,220	$ 4,600	$ 490	$ 22,310

Summary of Defined Benefit Plans

Summary of Defined Benefit Plans
As of June 30, 2016
(In Thousands)

	Primary Government Administered Multiple-Employer Cost Sharing Plans	Non-Primary Government Administered Multiple-Employer Cost Sharing Plans	Primary Government Administered Single-Employer Plans	Total
Net Pension Liabilities	$ 2,850,416	$ 173,161	$ 551,020	$ 3,574,597
Deferred Outflows of Resources	$ 653,440	$ 17,808	$ 69,687	$ 740,935
Deferred Inflows of Resources	$ 1,440,768	$ 15,071	$ 47,377	$ 1,503,216
Net Pension Expense	$ (98,643)	$ 10,087	$ 36,778	$ (51,778)

The State Board of Investment, which manages the investments of MSRS, PERA, and TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method using both long-term historical returns and long-term capital market expectations from a number of investments management and consulting organizations. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

Primary Government Administered Plans
Asset Class Target Allocation and Expected Return
As of June 30, 2016

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Geometric Mean)
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%
Total	100%	

The following table presents the net pension liability for each defined benefit plan with a primary government proportionate share of the net pension liability, calculated using the corresponding discount rate as well as what the net pension liability would be if the rate were one percentage point higher or lower.

Primary Government Proportionate Share
Sensitivity of the Net Pension Liability to Changes in the Discount Rate
As of June 30, 2016
(In Thousands)

	With a 1% Decrease		Current Discount Rate		With a 1% Increase	
	Rate	NPL[1]	Rate	NPL[1]	Rate	NPL[1]
SERF	6.90%	$ 2,329,738	7.90%[4]	$ 1,138,125	8.90%	$ 146,484
CERF[3]	5.25%	899,472	6.25%[2][4]	653,352	7.25%	454,712
GERF	6.90%	340,415	7.90%[4]	216,500	8.90%	114,165
TRF[3]	7.00%	1,282,301	8.00%	842,439	9.00%	475,361
SPTRF	7.00%	266,030	8.00%	173,161	9.00%	129,301
JRF[3]	4.25%	282,854	5.25%[2][4]	236,392	6.25%	196,936
LRF[3]	2.80%	157,407	3.80%[2][4]	140,923	4.80%	127,130
SPRF	6.90%	270,947	7.90%[4]	173,705	8.90%	92,576

(1) Net Pension Liability.

(2) The long-term projected rate of return was used through 2054, 2034, and 2015 for CERF, JRF, and LRF, respectively. The 20 year municipal bond rate was used subsequent to these years.

(3) The discount rate changed from 6.82, 8.25, 5.78, and 4.29 percent for CERF, TRF, JRF, and LRF, respectively.

(4) The long-term projected rate of return for SERF, CERF, GERF, JRF, LRF, and SPRF that will be used to calculate the net pension liability for fiscal year 2017 will change from 7.90 to 7.50 percent. This will have a significant impact on the calculation of the net pension liability for fiscal year 2017.

Defined Contribution Plans

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds. The benefits received are limited to an annuity, which can be purchased with the combined contributions of both the employee and employer or solely with employee contributions, depending on the fund. Accordingly, there is no unfunded liability for these funds; therefore, there is no actuarial accrued benefit liability or actuarially required contribution.

Plan Descriptions and Contribution Information

The Hennepin County Supplemental Retirement Fund (HCSRF), authorized by Minnesota Statutes, Sections 383B.46-52, covers employees of Hennepin County who began employment prior to April 14, 1982. The employer (Hennepin County and Hennepin Healthcare System) and employee contribution rate is 1.0 percent of the employee's salary. Benefits are the participant's account balance, which includes investment earnings/losses.

Health Care Savings Fund (HCSF), authorized by Minnesota Statutes, Section 352.98, creates a post-retirement health care savings plan by which public employers and employees may save to cover post-retirement health care costs. Contributions to the plan are defined in a personnel policy or in a collective

bargaining agreement. Contributions to the plan, by or on behalf of an employee, are held in trust for reimbursement of employee and dependent health-related expenses following termination of public service. The current plan is based on state employee contributions without any matching provision by the state. A plan participant may request reimbursement until funds accumulated in the participant's account are exhausted. Benefits are the participant's account balance, which includes investment gains/losses and must be used for qualifying health-related expenses. The employee contributions were $130,016,000 for the fiscal year ended June 30, 2016.

The Unclassified Employees Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state, specified employees of various statutorily designated entities, or judges who exceed the maximum benefit cap under the Judges Retirement Fund (pension trust fund). Statutory contribution rates are 5.5 percent of employee's salary for employee and 6.0 percent for state. However, contribution rates for participating judges are 8.0 percent of employee's salary with no state contribution. Benefits are either an annuity based on age, value of the participant's account, and a 6.0 percent post-retirement interest assumption or the participant's account balance withdrawals.

The Minnesota Deferred Compensation Fund (DCPF) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. Employees and elected officials of the state and its political subdivisions are eligible to participate in the plan.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. The statutory contribution rate is 5.0 percent of employee's salary for both the employee and employer (local units of government, elected officials, and physicians). For other participants, the contribution rate is determined by the employer with a fixed percentage for the employee. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and administrators, participate in the IRAP. The state and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the SRP, the statutorily required contribution rate is 5.0 percent of salary for both the state and employees with contribution maximums between $1,700 and $2,500 depending on the member group. Minnesota Statutes allow additional state and employee contributions under specific circumstances.

Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) is the administrative agent for the State Colleges and Universities Retirement Fund. Separately-issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

Primary Government
Defined Contribution Plans Contributions
As of June 30, 2016
(In Thousands)

	HCSRF	UERF	DCPF	DCF	CURF	Total
Member Contributions	$ 197	$ 5,810	$ 240,934	$ 1,779	$ 36,685	$ 285,405
Employer Contributions:						
Primary Government Contributions	$ -	$ 5,755	$ 54	$ -	$ 43,890	$ 49,699
Other Employer Contributions	197	432	-	1,965	-	2,594
Total Employer Contributions	$ 197	$ 6,187	$ 54	$ 1,965	$ 43,890	$ 52,293

Investment Trust Funds

The Supplemental Retirement and the Investment Trust funds (investment trust funds) are administered by the State Board of Investment, which issues a separate report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address). These funds are investment pools for external participants.

Component Units

The following component units are participants in the State Employees Retirement Fund (SERF), Police and Fire Fund (P&FF), and the Unclassified Employees Retirement Funds (UERF):

- Housing Finance Agency (HFA)
- Metropolitan Council (MC)
- University of Minnesota (U of M)
- Office of Higher Education (OHE)
- Minnesota Sports Facilities Authority (MSFA)

Component Unit
Summary of Pension Amounts
State Employee Retirement Fund
As of June 30, 2016
(In Thousands)

	Major Component Units			Non-Major Component Units		
	HFA	MC	U of M	OHE	MSFA	Total
Proportionate Share of the Net Pension Liability	$ 8,979	$ 140,378	$ 237,436	$ 1,883	$ 508	$ 389,184
Deferred Outflows of Resources	$ 2,980	$ 45,401	$ 22,974	$ 624	$ 194	$ 72,173
Deferred Inflows of Resources	$ 11,327	$ 177,242	$ 294,611	$ 2,376	$ 1,078	$ 486,634
Net Pension Expense	$ (2,053)	$ (29,905)	$ (70,322)	$ (534)	$ (368)	$ (103,182)

Major Component Units
Summary of Pension Amounts
Police and Fire Fund
As of June 30, 2016
(In Thousands)

	MC	U of M	Total
Proportionate Share of the Net Pension Liability	$ 11,135	$ 6,965	$ 18,100
Deferred Outflows of Resources	$ 5,453	$ 2,329	$ 7,782
Deferred Inflows of Resources	$ 5,359	$ 2,366	$ 7,725
Net Pension Expense	$ 1,209	$ 727	$ 1,936

The University of Minnesota also participates in the Supplemental Benefit Plan. The plan provides retirement, survivor, and disability benefits to faculty. Contribution rates are determined on a funding status and actuarial value basis as the plan is closed to new entrants. The net pension liability as of June 30, 2016, was $1,595,000.

Note 9 – Termination and Postemployment Benefits

Primary Government – Termination Benefits

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. A liability and expense for voluntary termination benefits are recognized when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits are recognized when a plan of termination has been approved, the plan has been communicated to the employees, and the amount can be estimated.

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative Service Faculty contracts. Faculty members who meet a combination of age and years of service plus certain eligibility requirements are eligible to receive an early retirement incentive cash payment based on base salary plus health insurance paid for one year after separation or up to age 65, depending on the contract. Approximately 100 former faculty members and staff currently receive this benefit. The cost of the benefits was $1,776,000 during fiscal year ended June 30, 2016, with a remaining liability as of June 30, 2016, of $3,011,000.

Primary Government – Postemployment Benefits Other Than Pensions

Plan Description

Other postemployment benefits (OPEB) are available to state employees and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes, Section 43A.27, Subdivision 3, and Minnesota Statutes, Section 471.61, Subdivision 2a, and required under the terms of selected employment contracts. All pre-age-65 state retirees with at least 5 years of allowable pension service who are entitled at the time of retirement to receive an annuity under the state retirement program are eligible to participate in the state's health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100 percent of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rate and are, therefore, subsidized by the insurance premiums rates for active state employees, resulting in an implicit rate subsidy. As of July 1, 2014, there were approximately 2,440 retirees participating in the state's insurance plan under this provision.

The state also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at state correctional facilities, and state troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the state until the retiree is age 65. The retiree is responsible for any other portion of the premiums. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age 65. As of July 1, 2014, there were approximately 975 correctional and law enforcement retirees receiving an explicit rate subsidy.

The state does not issue a separate financial report for its OPEB as the state does not fund an OPEB plan and operates on a pay-as-you-go basis.

Funding Policy

The contribution requirement of plan members and the state are established and may be amended by the Minnesota Legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For fiscal year ended June 30, 2016, the state contributed $35,984,000 to the plan. Plan member retirees receiving benefits through the implicit rate subsidy contributed $22,588,000 through their average required contribution of $525 per month for retiree-only coverage and $1,545 per month for retiree-family coverage.

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 4.10 percent discount rate. For year ending June 30, 2016, the state's ARC is $74,289,000.

The following table shows the components of the state's annual OPEB cost, the amount contributed to the plan, and the changes to the state's net OPEB obligation:

OPEB Disclosures
As of June 30, 2016
(In Thousands)

Annual Required Contributions (ARC)[1]	$	74,289
Interest on Net OPEB Obligation (NOO)[1]		12,173
Amortization Adjustment to ARC[1]		(10,821)
Annual OPEB Cost (Expense)	$	75,641
Contributions		(35,984)
Increase in NOO	$	39,657
NOO, Beginning Balance	$	296,900
NOO, Ending[2]	$	336,557

(1) Components of annual OPEB cost.

(2) Governmental Activities, Business-type Activities, and Fiduciary Funds include $292,616; $43,826; and $115, respectively.

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016, 2015, and 2014 are as follows:

OPEB Disclosures
(In Thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$ 75,641	48%	$ 336,557
June 30, 2015	$ 72,065	45%	$ 296,900
June 30, 2014	$ 70,803	50%	$ 256,979

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was $666,638,000. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was $3,243,316,000 and the ratio of the UAAL to the covered payroll was 20.6 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, as the state operates on a pay-as-you-go basis, the actuarial value of plan assets is zero.

Actuarial Methods and Assumptions

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Actuarial Assumptions for OPEB

- The actuarial cost method used is the Entry Age Normal Cost method. The date of actuarial valuation is July 1, 2014.
- Expected investment return is 4.10 percent based on the estimated long-term investment yield on the general assets of the state.
- Inflation rate is 3.0 percent.

- Projected salary increases are a level 3.75 percent.
- The annual health care cost trend rate is 6.60 percent initially, reduced by increments to an ultimate rate of 4.0 percent by 2074 and later. The annual dental cost trend rate is 5.0 percent.
- The amortization period for the unfunded actuarial accrued liability is 30 year level percent of pay.
- The amortization period is open.

See Note 12 – Long-Term Liabilities – Primary Government for the related liability amount accrued at the government-wide level.

Component Units – Postemployment Benefits Other Than Pensions

The Metropolitan Council (MC) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care and life insurance plan to eligible retirees, their spouses, and dependents. MC does not fund its OPEB benefits in an irrevocable trust. However, it has separately invested $207,095,000 as of December 31, 2015, for this purpose. The annual required contribution for 2015 was $20,339,000 or 6.0 percent of annual covered payroll. As of December 31, 2015, 2014, and 2013, the net OPEB obligation was $87,231,000, $83,577,000, and $78,825,000, respectively. The actuarial accrued liability (AAL) for benefits was $209,378,000 as of December 31, 2015, all of which was unfunded. The covered payroll was $339,990,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 61.6 percent.

The University of Minnesota (U of M) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care plan to eligible employees, retirees, their spouses, and dependents, and an academic disability plan for faculty and academic professional and administrative employees. U of M does not fund its OPEB benefits in an irrevocable trust. The annual required contribution for the year ended June 30, 2016, was $26,457,000 or 2.0 percent of annual covered payroll. As of June 30, 2016, 2015, and 2014, the net OPEB obligation was $138,200,000, $120,227,000, and $101,288,000. The actuarial accrued liability (AAL) for benefits was $111,519,000 as of June 30, 2016. The covered payroll was $1,350,645,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 8.3 percent.

Note 10 – Long-Term Commitments

Long-term commitments consist of grant agreements, construction projects, and other contracts. A portion of these commitments will be funded by current reserves, and these amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance amounts. Resources provided by future bond proceeds, gas taxes, motor vehicle registration revenues, and federal grants will fund the remaining commitments. Governmental funds' encumbrances, both current and long-term, as of June 30, 2016, were as follows:

Primary Government Encumbrances As of June 30, 2016 (In Thousands)

Major Fund: General Fund	$ 364,974
Non-Major Governmental Funds	1,634,507
Total Encumbrances	$ 1,999,481

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes, Chapter 115C, requires the state to reimburse eligible applicants for a significant portion of their costs to investigate and clean up contamination from leaking petroleum storage tanks. Reimbursements are made from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). As of July 2016, the Petrofund has reimbursed eligible applicants approximately $440,000,000 since program inception in 1987. Future expenditures from the Petrofund will be necessary as existing cleanup projects are completed and new cleanup projects are begun at currently undiscovered leak sites. The estimated total payments from the program, which is scheduled to sunset on June 30, 2022, are between $460,000,000 and $480,000,000 for investigative and cleanup costs.

Environmental and Remediation Fund

The Remediation Account was established in the state treasury as part of the Environmental and Remediation Fund (special revenue fund) to provide a reliable source of public money for response and corrective actions to address releases of hazardous substances, pollutants, contaminants, agricultural chemicals, and petroleum, and for environmental response actions at qualified closed landfills for which the state has assumed responsibility. Money in the general portion of the fund may be spent for remediation actions related to releases of hazardous substances, pollutants, or containments and to provide technical and other assistance. Additionally, funds may be spent for corrective actions to address incidents involving agricultural chemicals, including related administrative costs, enforcement, and cost recovery actions.

In addition to the general portion of the fund, two dedicated accounts are held within the fund. Money in the dry cleaner environmental response and reimbursement account may be used for environmental response actions at dry cleaning facilities and sites as well as related administrative costs. The metropolitan landfill contingency action trust account receives 25 percent of the metropolitan solid waste landfill fee. Money in this dedicated account is appropriated for closure and post-closure care of mixed municipal solid waste disposal facilities in the metropolitan area for a 30-year period after closure if determined that the operator/owner cannot take the necessary actions as directed by the commissioner of the Minnesota Pollution Control Agency.

The Closed Landfill Investment Account consists of money credited to the fund plus interest and other earnings. Money in the fund may be spent only after fiscal year 2020 as determined by the commissioner of the Minnesota Pollution Control Agency on environmental response actions at qualified closed mixed municipal solid waste disposal facilities.

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities had commitments of $85,308,000 for construction and renovation of college and university facilities as of June 30, 2016.

Component Units

As of June 30, 2016, the Housing Finance Agency had committed approximately $336,490,000 for the purchase or origination of future loans or other housing assistance.

The Metropolitan Council entered into contracts for various purposes such as transit services and construction projects. As of December 31, 2015, unpaid commitments for Metro Transit Bus services were approximately $419,776,000. Future commitments for Metro Transit Light Rail were approximately $85,544,000, while future commitments for Metro Transit Commuter Rail were approximately $8,685,000. Future commitments for Regional Transit and Environmental Services were approximately $24,226,000 and $113,680,000, respectively. Finally, amounts authorized and initiated in the calendar year 2015 budget but not completely expended in calendar year 2015 were $3,351,000.

The University of Minnesota had construction projects in progress with an estimated completion cost of $381,645,000 as of June 30, 2016. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2016, the Public Facilities Authority (PFA) had committed approximately $117,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $21,000,000 for grants.

As of December 31, 2015, the Minnesota Sports Facilities Authority had committed approximately $137,575,000 for stadium and stadium infrastructure construction projects.

Note 11 – Operating Lease Agreements

Operating Leases

The state and its component units are committed under various leases primarily for building and office space. For accounting purposes, these leases are considered to be operating leases.

Lease expenditures/expenses for the fiscal year ended June 30, 2016, totaled approximately $89,285,000 and $20,225,000 for the primary government and component units, respectively. Lease expenses for the year ended December 31, 2015, totaled approximately $1,977,000 for component units.

Primary Government and Component Units
Future Minimum Lease Payments
(In Thousands)

Primary Government		Component Units			
Year Ended June 30	Amount	Year Ended June 30	Amount	Year Ended December 31	Amount
2017	$ 81,341	2017	$ 10,122	2016	$ 1,561
2018	70,941	2018	5,900	2017	1,277
2019	54,794	2019	4,347	2018	1,265
2020	44,969	2020	3,214	2019	948
2021	39,995	2021	2,974	2020	680
2022-2026	95,882	2022-2026	8,576	2021-2025	1,928
2027-2031	5,438	2027-2031	7,924	2026-2030	1,706
2032-2036	-	2032-2036	5,324	2031-2035	1,661
2037-2041	-	2037-2041	-	2036-2040	1,447
2042-2046	-	2042-2046	-	2041-2045	1,412
2047-2051	-	2047-2051	-	2046-2050	282
Total	$ 393,360	Total	$ 48,381	Total	$ 14,167

Note 12 – Long-Term Liabilities – Primary Government

Primary Government
Long-Term Liabilities
Year Ended June 30, 2016
(In Thousands)

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	$ 6,885,776	$ 1,225,878	$ 1,067,711	$ 7,043,943	$ 552,907
Revenue Bonds	44,757	-	2,654	42,103	2,490
State General Fund Appropriation Bonds	1,175,677	-	46,971	1,128,706	39,420
Loans	24,966	11,532	13,161	23,337	11,054
Due to Component Unit	10,338	-	2,521	7,817	2,326
Capital Leases	98,512	-	8,658	89,854	8,973
Certificates of Participation	125,875	-	10,005	115,870	9,900
Claims [1]	753,643	829,597	855,606	727,634	159,381
Compensated Absences	296,197	282,038	272,528	305,707	39,547
Net Other Postemployment Benefits	258,946	63,768	30,098	292,616	-
Net Pension Liability	2,660,819	948,084	450,587	3,158,316	-
Total	$ 12,335,506	$ 3,360,897	$ 2,760,500	$ 12,935,903	$ 825,998
Business-type Activities					
Liabilities For:					
General Obligation Bonds	$ 260,431	$ 17,066	$ 23,826	$ 253,671	$ 21,058
Revenue Bonds	460,484	-	29,195	431,289	29,815
Loans	3,794	1,690	642	4,842	599
Capital Leases	25,968	-	4,333	21,635	4,275
Claims [1]	11,862	4,692	1,664	14,890	12,838
Compensated Absences	150,902	32,747	30,901	152,748	18,745
Net Other Postemployment Benefits	37,860	11,807	5,841	43,826	-
Net Pension Liability	398,011	65,958	47,688	416,281	-
Total	$ 1,349,312	$ 133,960	$ 144,090	$ 1,339,182	$ 87,330

[1] The beginning balance for Claims has been restated as a result of including State Employee Insurance Fund (internal service fund) in Governmental Activities and Public Employees Insurance Fund (enterprise fund) in Business-type Activities.

Primary Government
Resources for Repayment of Long-Term Liabilities
(In Thousands)

	Governmental Activities				
	General Fund	Special Revenue Funds	Internal Service Funds	Business-type Activities	Total
Liabilities For:					
General Obligation Bonds	$ 5,143,663	$ 1,900,280	$ -	$ 253,671	$ 7,297,614
Revenue Bonds	26,895	15,208	-	431,289	473,392
State General Fund Appropriation Bonds	1,128,706	-	-	-	1,128,706
Loans	-	-	23,337	4,842	28,179
Due to Component Unit	-	7,817	-	-	7,817
Capital Leases	89,802	52	-	21,635	111,489
Certificates of Participation	115,870	-	-	-	115,870
Claims	69,664	578,060	79,910	14,890	742,524
Compensated Absences	147,655	131,666	26,386	152,748	458,455
Net Other Postemployment Benefits	291,522	-	1,094	43,826	336,442
Net Pension Liability	3,053,411	-	104,905	416,281	3,574,597
Total	$10,067,188	$ 2,633,083	$ 235,632	$ 1,339,182	$14,275,085

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, state General Fund appropriation bonds, loans, due to component unit, capital leases, and certificates of participation. There are no payment schedules for claims, compensated absences, net other postemployment benefits, and net pension liability.

Primary Government
General Obligation Bonds
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 552,907	$ 274,524	$ 21,058	$ 10,861	$ 573,965	$ 285,385
2018	540,359	249,403	20,836	9,476	561,195	258,879
2019	496,104	224,523	19,811	8,495	515,915	233,018
2020	482,869	201,234	19,301	7,562	502,170	208,796
2021	451,544	178,757	18,681	6,640	470,225	185,397
2022-2026	1,938,300	595,851	78,210	20,978	2,016,510	616,829
2027-2031	1,300,837	233,771	43,113	7,236	1,343,950	241,007
2032-2036	514,797	40,187	14,853	1,225	529,650	41,412
Total	$ 6,277,717	$ 1,998,250	$ 235,863	$ 72,473	$ 6,513,580	$ 2,070,723
Bond Premium	766,226	-	17,808	-	784,034	-
Total	$ 7,043,943	$ 1,998,250	$ 253,671	$ 72,473	$ 7,297,614	$ 2,070,723

Primary Government
Revenue Bonds
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 2,490	$ 1,462	$ 29,815	$ 16,497	$ 32,305	$ 17,959
2018	2,570	1,383	32,170	15,333	34,740	16,716
2019	2,645	1,298	29,355	14,082	32,000	15,380
2020	2,740	1,205	30,385	12,899	33,125	14,104
2021	2,830	1,109	30,045	11,675	32,875	12,784
2022-2026	10,310	4,456	139,665	39,657	149,975	44,113
2027-2031	10,730	2,722	86,435	15,232	97,165	17,954
2032-2036	7,540	494	36,575	2,230	44,115	2,724
Total	$ 41,855	$ 14,129	$ 414,445	$ 127,605	$ 456,300	$ 141,734
Bond Premium	248	-	16,844	-	17,092	-
Total	$ 42,103	$ 14,129	$ 431,289	$ 127,605	$ 473,392	$ 141,734

Primary Government
State General Fund Appropriation Bonds
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities	
	Principal	Interest
2017	$ 39,420	$ 47,836
2018	40,385	46,041
2019	41,175	44,162
2020	42,930	42,160
2021	44,760	40,104
2022-2026	256,635	165,464
2027-2031	267,970	98,268
2032-2036	92,975	57,798
2037-2041	118,365	32,401
2042-2046	56,060	4,248
Total	$ 1,000,675	$ 578,482
Bond Premium	128,031	-
Total	$ 1,128,706	$ 578,482

Primary Government
Loans Payable and Due to Component Unit
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 13,380	$ 474	$ 599	$ 187	$ 13,979	$ 661
2018	7,181	279	579	148	7,760	427
2019	4,129	187	448	129	4,577	316
2020	2,325	131	349	113	2,674	244
2021	1,238	94	373	110	1,611	204
2022-2026	1,900	285	1,561	267	3,461	552
2027-2031	1,001	57	844	68	1,845	125
2032-2036	-	-	89	1	89	1
Total	$ 31,154	$ 1,507	$ 4,842	$ 1,023	$ 35,996	$ 2,530

Primary Government
Capital Leases
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 8,973	$ 4,374	$ 4,275	$ 1,295	$ 13,248	$ 5,669
2018	9,305	3,968	4,264	1,389	13,569	5,357
2019	9,712	3,545	4,226	1,480	13,938	5,025
2020	10,162	3,077	4,122	1,563	14,284	4,640
2021	10,655	2,569	1,619	462	12,274	3,031
2022-2026	41,047	4,690	1,883	531	42,930	5,221
2027-2031	-	-	1,137	187	1,137	187
2032-2036	-	-	109	1	109	1
Total	$ 89,854	$ 22,223	$ 21,635	$ 6,908	$ 111,489	$ 29,131

Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities	
	Principal	Interest
2017	$ 9,900	$ 5,152
2018	10,355	4,656
2019	10,620	4,137
2020	2,180	3,607
2021	2,290	3,498
2022-2026	13,290	15,656
2027-2031	16,965	11,982
2032-2036	21,655	7,295
2037-2041	15,765	1,602
Total	$ 103,020	$ 57,585
Premium on Certificates of Participation	12,850	-
Total	$ 115,870	$ 57,585

Debt Service Fund

Minnesota Statutes, Section 16A.641, provides for an annual appropriation for transfer to the Debt Service Fund. The amount of the appropriation is to be such that, when combined with the balance on hand in the Debt Service Fund on December 1 of each year for state bonds, it will be sufficient to pay all general obligation bond principal and interest due and to become due through July 1 in the second ensuing year. If the amount appropriated is insufficient when combined with the balance on hand in the Debt Service Fund, the state constitution requires the state auditor to levy a statewide property tax to cover the deficiency. No such property tax has been levied since 1969 when the law requiring the appropriation was enacted.

During fiscal year 2016, Minnesota Management and Budget made the necessary transfers to the Debt Service Fund as follows:

Primary Government
Transfers to Debt Service Fund
Year Ended June 30, 2016
(In Thousands)

General Fund	$ 706,555
Special Revenue Funds:	
Trunk Highway Fund	$ 180,726
Miscellaneous Special Revenue Fund	1,216
Total Special Revenue Funds	$ 181,942
Capital Projects Fund – Building Fund	$ 49
Internal Service Fund – Plant Management Fund	$ 2,861
Total Transfers to Debt Service Fund	$ 891,407

General Obligation Bond Issues

In August 2015, the state issued $1,076,980,000 general obligation bonds, Series 2015A through Series 2015E:

- Series 2015A for $368,225,000 in state various purpose bonds were issued at a true interest rate of 2.93 percent.
- Series 2015B for $310,000,000 in state trunk highway bonds were issued at a true interest rate of 2.88 percent.
- Series 2015C for $7,200,000 in taxable state bonds were issued at a true interest rate of 2.43 percent.
- Series 2015D for $376,655,000 in state various purpose refunding bonds were issued at a true interest rate of 2.18 percent. The aggregate debt service payments decreased by $50,452,000 and the economic gain (the present value of the debt service savings) for the state was $44,114,000.
- Series 2015E for $14,900,000 in state trunk highway refunding were issued at a true interest rate of 2.15 percent. The aggregate debt service payments decreased by $247,000 and the economic gain (the present value of the debt service savings) for the state was $1,181,000.

The state remains contingently liable to pay its advance refunded general obligation bonds as shown in the following table.

Primary Government
Outstanding Defeased Debt
(In Thousands)

General Obligation Bonds

Refunding Date	Refunding Amount	Refunded Amount	June 30, 2016 Outstanding Amount	Refunded Bond Call/Maturity Date
November 6, 2013	$ 133,584	$ 140,750	$ 140,750	November 1, 2016
August 21, 2014	5,449	5,705	5,705	October 1, 2021
August 21, 2014	9,727	10,185	10,185	August 1, 2022
August 21, 2014	33,304	31,950	31,950	November 1, 2016
August 21, 2014	6,776	6,500	6,500	August 1, 2017
August 19, 2015	268,019	299,200	299,200	August 1, 2017
August 19, 2015	101,224	113,000	113,000	June 1, 2018
August 19, 2015	14,900	14,050	14,050	June 1, 2018
	$ 572,983	$ 621,340	$ 621,340	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2016. This schedule includes all general obligation bonds that were sold, including bonds sold for the State Operated Community Services and State Colleges and Universities funds (enterprise funds).

Primary Government
General Obligation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2016
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates for Outstanding
Maximum Effort School Loan	$ -	$ 2,245	5.00%
Rural Finance Authority	14,500	32,234	1.35-5.00%
State Building	1,014	60	5.00%
State Operated Community Services	-	337	5.00%
State Transportation	36,821	233,964	3.00-5.00%
Trunk Highway	565,823	1,611,510	2.00-5.00%
Trunk Highway Refunding Bonds	-	288,770	1.00-5.00%
Various Purpose	577,854	2,835,675	1.00-5.00%
Various Purpose Refunding Bonds	-	1,508,785	1.39-5.00%
Total	$ 1,196,012	$ 6,513,580	

State General Fund Appropriation Bonds

On October 31, 2012, the Minnesota Supreme Court concluded that the Appropriation Refunding Bonds do not constitute public debt for which the state has pledged its full faith, credit, and taxing powers. The Minnesota Supreme Court held that, accordingly, the bonds are not subject to the Minnesota Constitution's Article XI, Section 5, restrictions on the use of the proceeds of "public debt." Resulting from the decision of this court case, on November 21, 2012, the state sold state General Fund appropriation refunding bonds. The bonds were issued for the purpose of refunding tobacco settlement revenue bonds Series 2011A and Series 2011B of the Tobacco Securitization Authority. These appropriation bonds are payable only from amounts appropriated by the Minnesota Legislature.

Minnesota Statutes, Section 16A.965, authorizes the state to issue state General Fund appropriation bonds for the purpose of financing up to $498,000,000 for the state and City of Minneapolis' share of the costs of a professional football stadium project of the Minnesota Sports Facilities Authority (component unit) that was created for that purpose by Minnesota Statutes, Chapter 473J. The state has commenced the financing process. In addition, the Minnesota Pay-for-Performance Act of 2011 authorized issuance of up to $10,000,000 bond proceeds as incentive payments to service providers for certain financial outcomes that will result in decreased costs or increased revenues to the state.

Minnesota Statutes, Section 16A.967, authorizes the state to issue state General Fund appropriation bonds not to exceed $19,000,000 for financing land acquisition, design, engineering, and construction of facilities and infrastructure necessary to complete the next phase of the Lewis and Clark Regional Water System project, including completion of the pipeline to Magnolia, extension of the project to the Lincoln-Pipestone Rural Water System connection near Adrian, and engineering, design, and easement acquisition for the final phase of the project to Worthington. No bonds shall be sold until the commissioner of Minnesota Management and Budget determines that a nonstate match of at least $9,000,000 is committed to this project phase. Grant agreements entered into under this section must provide for reimbursement to the state from any federal money provided for the project, consistent with the Lewis and Clark Regional Water System, Incorporated agreement. The nonstate match was met, and on November 2, 2016, state General Fund appropriation bonds of $11,790,000 were issued. See Note 21 - Subsequent Events.

The following table is a schedule of state General Fund appropriation bonds authorized, but unissued, and bonds outstanding as of June 30, 2016.

Primary Government
State General Fund Appropriation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2016
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates
Professional Football Stadium	$ -	$ 445,330	0.60-5.00%
Pay-for-Performance	10,000	-	N/A
Refund Tobacco Securitization Authority	-	555,345	3.00-5.00%
Lewis and Clark Regional Water System	19,000	-	N/A
Total	$ 29,000	$ 1,000,675	

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). $7,817,000 in loans from the Public Facilities Authority (component unit – Due to Component Unit) was outstanding for transportation projects. Other governmental activities loans are internal service fund loans for equipment purchases.

Business-type activities loans are loans to purchase equipment and loans from energy companies to improve energy efficiencies in the colleges and universities.

Capital Leases

In fiscal year 2006, the state entered into capital lease agreements, amended in fiscal year 2013, with St. Paul Port Authority (SPPA - not part of the state's reporting entity) to purchase two newly constructed buildings on state-owned land for $180,005,000. Lease payments are scheduled over 20 years and approximate the debt service payments of SPPA. The leases meet the criteria of a capital lease as defined by GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The terms of each agreement provide options to purchase the buildings under a bargain purchase option. In May 2013, the SPPA issued refunding bonds of $115,760,000. The proceeds of the bonds were applied to refund SPPA's outstanding revenue bonds. The lease agreement was amended to approximate the debt service payments of SPPA refunding bonds. The state has other capital lease agreements to purchase equipment that meets the above criteria.

Certificates of Participation

In August 2009, the state issued $74,980,000 of certificates of participation (COPs) at a true interest rate of 2.88 percent to finance the acquisition of computer software development intangible assets. The proceeds were used to develop the state's statewide financial and procurement system and the state's integrated tax accounting system. The COPs were issued under a trust agreement with U.S. Bank, NA., trustee, who will collect rental payments according to the principal and interest schedule pursuant to the Technology Systems Lease Purchase Agreement for remittance to the investors. The COPs are not general or moral obligations of the state and no revenues are pledged to repay them. If the state defaults on the debt, the trustee has the right to terminate the lease terms of either or both projects and to take whatever legal action may appear necessary to collect rental payment(s).

In August 2014, the state issued $80,100,000 of certificates of participation (COPs) at a true interest rate of 3.70 percent to finance the predesign, design, and construction and equipping of offices, hearing rooms, and parking facilities for a legislative office facility. The COPs are not general or moral obligations of the state and no revenues are pledged to repay them. If the state defaults on the debt, the trustee has the right to terminate the lease terms of either or both projects and to take whatever legal action may appear necessary to collect rental payment(s).

Revenue Bonds Payable

In October 2013, Iron Range Resources and Rehabilitation issued $37,830,000 of education facilities revenue bonds at a true interest rate of 3.76 percent. Minnesota Laws of 2013, Chapter 143, Article 11, Section 11; Minnesota Statutes, Section 298.22 through 298.32; and an order of the commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. The bonds will be used to make grants to certain school districts located in the taconite relief areas, as defined in Minnesota Statutes, Section 273.134. The interest rates for the bonds range from 3.00 percent to 4.30 percent over a 20 year term.

In September 2014, the Iron Range Resources and Rehabilitation issued $7,860,000 of education facilities refunding revenue bonds at a true interest rate of 1.32 percent. The proceeds of the bonds will be used to effect a current refunding of the commissioner of Iron Range Resources and Rehabilitation's Educational Facilities Revenue Bonds Series 2006. Minnesota Laws of 2005, Chapter 152, Article 1,

Section 39 as amended; Minnesota Statutes, Section 298.2211; and an order of the commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. The interest rates on the bonds range from 2.00 to 3.00 percent over the seven year term of the bonds.

To repay the bonds, Iron Range Resources and Rehabilitation has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund). These tax distributions, totaling $3,990,000 for fiscal year 2016, have averaged less than seven percent of the state's total annual taconite production tax revenues over the last five years. The debt service on the bonds is payable solely from these taconite production tax distributions. For fiscal year 2016, principal and interest paid by Iron Range Resources and Rehabilitation on the bonds was $3,944,000. The total principal and interest remaining to be paid as of June 30, 2016, is $55,984,000 payable through October 2033.

The state is authorized by Minnesota Statutes, Section 403.275, and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, $35,000,000 in revenue bonds was issued at a true interest rate of 3.76 percent. On November 13, 2008, $42,205,000 in revenue bonds was issued at a true interest rate of 4.60 percent. On October 22, 2009, $60,510,000 in revenue bonds was issued at a true interest rate of 3.17 percent. On August 16, 2011, $60,380,000 in revenue bonds was issued at a true interest rate of 2.96 percent. The state has pledged future 911 fee revenues to repay the debt. The debt service on these bonds is payable solely from the revenues derived from the 911 fee assessed on wireless and wire-line telephone service. Annual principal and interest payments on the bonds are expected to require less than 30 percent of the total 911 fee revenues. The total principal and interest remaining to be paid on the bonds as of June 30, 2016, is $124,537,000 payable through June 2026. Principal and interest paid during fiscal year 2016 and total 911 fee revenues were $18,213,000 and $68,500,000, respectively. The bonds are accounted for in the 911 Services Fund (enterprise fund) and are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

Minnesota State Colleges and Universities (MnSCU) (enterprise fund) is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed $405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 1.00 percent to 5.75 percent. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2036. Annual principal and interest payments on the bonds are expected to require less than 25 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $415,618,000. Principal and interest paid for the current year and total customer net revenues were $26,727,000 and $119,181,000, respectively.

Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 36 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,895,000. Principal and interest paid and total customer net revenues during fiscal year 2016 were $166,000 and $495,000, respectively. These revenue bonds have a variable interest rate of 0.75 percent to 3.65 percent.

Claims

The state has assumed responsibility for the long-term care of certain closed municipal solid waste facilities. Minnesota Statutes, Section 115B.39, established the landfill cleanup program to provide environmental response to qualified, state-permitted, closed landfills. The state is responsible, in perpetuity, for performing cleanup and final closure work, as well as all postclosure maintenance and monitoring, at qualifying sites. Municipal solid waste landfill liabilities of $202,463,000 for closure and postclosure care claims are payable from the Environmental and Remediation Fund (special revenue

fund) and the General Fund. There are currently 109 landfills in the program and four more landfills that are qualified, but not yet enrolled. One of the qualified sites, Freeway Landfill, has a liability of $53,625,000; approximately 25 percent of the total landfill liability. Estimated landfill closure and postclosure liabilities include planned response actions, future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and administrative costs. Since costs are estimated at current value, actual costs could be different because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions. Funding for the state's ongoing claims at these landfills has historically come from the Environmental and Remediation Fund (special revenue fund). Currently, the majority of funds appropriated for spending from the Environmental and Remediation Fund are budgeted and expended annually on activities not associated with closure and postclosure care of landfills. Further, the recovery of financial assurance monies from previous landfill owners and operators is no longer a source of revenue to the Environmental and Remediation Fund. The closed landfill investment account within the Environmental and Remediation Fund was established to address long-term costs through minimal withdrawals from a fund managed through the State Board of Investment to ensure long-term availability of resources beginning after fiscal year 2020. Proceeds from the sale of state general obligation bonds, accounted for in the Building Fund (capital projects fund) and repaid by the General Fund, are now a significant source of funding for design and construction work at the publicly-owned landfills in the program.

The state of Minnesota is financially responsible to remediate certain known pollution present on either state-owned or non-state-owned land. In most cases, the state voluntarily assumes responsibility for site assessment and clean-up activities when the responsible party cannot be found or is financially unable to perform the remediation. Pollution remediation obligation liabilities as of June 30, 2016, were $73,268,000. Of this total, $62,747,000 was the liability for remediation on sites designated pursuant to state or federal superfund laws. The pollution remediation amounts are estimated through an analysis of existing polluted sites. The liabilities are based on the weighted average of the pollution remediation outlays expected to be incurred to settle those liabilities. Because the liabilities are measured at their current value, they are subject to change due to inflation, technology improvements, or changes to applicable laws and regulations. Funding for the state's pollution remediation primarily comes from the Environmental and Remediation Fund (special revenue fund), which was established under Minnesota Statutes, Section 116.155, and the Petroleum Tank Cleanup Fund (special revenue fund), which was established under Minnesota Statutes, Section 115C.08.

The governmental activities' and business-type activities' liability for workers' compensation of $84,693,000 and $4,462,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2016, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Claims of $26,900,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of $260,400,000 are for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated discounted (5.00 percent) cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2057 for supplementary benefits and 2046 for second injuries.

The remaining $9,523,000 is for claims in the Risk Management Fund (internal service fund), $70,387,000 in the Employee Insurance Fund (internal service fund), and $10,428,000 in the Public Employees Insurance Fund (enterprise fund).

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $305,707,000 and $152,748,000 respectively, are primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Arbitrage Liabilities

An arbitrage rebate payable to the federal government is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties if there are excess earnings on tax-exempt bond proceeds and debt service reserves. For fiscal year 2016, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

On June 1, 2000, the state of Minnesota issued revenue bonds totaling $29,000,000 on behalf of the state's three retirement systems. Minnesota Statutes, Section 356.89, authorized the issuance of the revenue bonds for the construction of an administrative office building. On August 9, 2012, the state of Minnesota issued revenue refunding bonds totaling $21,880,000 on behalf of the state's three retirement systems at a true rate of 1.63 percent. Minnesota Statutes, Section 356B.10, authorized the issuance of the revenue bonds for a current refunding of the $29,000,000 Retirement System Building Revenue Bonds, Series 2000, which were issued for the construction of an administrative office building. The revenue refunding bonds have an interest rate of 1.63 percent and are not general obligations of the state. The bonds are backed by the assets of the three retirement systems, excluding assets segregated for retired employees and assets of the systems' defined contribution funds.

The debt service payments are allocated to each system based on the percentage interest each has in the facility. For fiscal year 2016, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and General Employees Retirement Fund (GERF) was $2,081,000. The total principal and interest remaining to be paid as of June 30, 2016, is $17,646,000, payable through fiscal year 2025.

Long-Term Debt Repayment Schedule
Fiduciary Funds
Revenue Bonds – SERF, TRF, and GERF
(In Thousands)

Year Ended June 30	Principal	Interest
2017	$ 1,675	$ 403
2018	1,710	370
2019	1,760	336
2020	1,785	300
2021	1,835	265
2022-2025	6,635	572
Total	$ 15,400	$ 2,246
Bond Premium	1,010	-
Total	$ 16,410	$ 2,246

Note 13 – Long-Term Liabilities – Component Units

General Obligation and Revenue Bonds

The Metropolitan Council (MC) issued general obligation bonds for parks, solid waste disposal systems, sewers, and transportation projects, backed by the full faith and credit and taxing powers of MC. MC had $1,549,118,000 in general obligation bonds and general obligation grant anticipation notes outstanding on December 31, 2015, net of unamortized discounts/premiums. During calendar year 2015, MC issued general obligation parks, transit, and wastewater bonds for a total of $151,000,000.

The University of Minnesota (U of M) issued general obligation bonds and revenue bonds for capital projects. On June 30, 2016, the principal amount of general obligation bonds and revenue bonds outstanding, net of unamortized discounts/premiums, was $916,266,000 and $302,673,000, respectively.

Component Units
General Obligation Bonds
Major Component Units
(In Thousands)

Year Ended December 31	MC[1] Principal	MC[1] Interest[2]	Year Ended June 30	U of M Principal	U of M Interest
2016	$ 215,095	$ 42,212	2017	$ 43,970	$ 39,067
2017	107,296	36,565	2018	46,080	37,288
2018	109,795	33,523	2019	47,860	35,181
2019	110,825	30,544	2020	36,550	33,293
2020	114,762	27,367	2021	37,960	31,567
2021-2025	485,239	87,357	2022-2026	175,610	131,446
2026-2030	255,542	30,035	2027-2031	190,200	84,852
2031-2035	87,451	5,680	2032-2036	143,415	43,949
2036-2040	-	-	2037-2041	89,985	15,974
2041-2045	-	-	2042-2045	25,225	2,044
Total	$ 1,486,005	$ 293,283	Total	$ 836,855	$ 454,661
Unamortized Discounts/ Premiums and Issuance Costs	63,113	-		79,411	-
Total	$ 1,549,118	$ 293,283	Total	$ 916,266	$ 454,661

[1] MC general obligation bonds include general obligation grant anticipation notes issued in calendar years 2012, 2014, and 2015.

[2] MC interest is net of Build America Bonds federal subsidy.

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction, and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed $5,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of revenue bonds outstanding on June 30, 2016, net of unamortized discounts/premiums, was $2,284,222,000.

The Office of Higher Education (OHE) is authorized by Minnesota Statutes, Section 136A.171 through Section 136A.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2016, the outstanding principal of revenue bonds was $471,430,000, net of unamortized discounts/premiums.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.04, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $1,500,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2016, net of unamortized discounts/premiums, was $1,073,878,000.

Component Units
Revenue Bonds
Major Component Units
(In Thousands)

Year Ended June 30	HFA Principal	HFA Interest	Year Ended June 30	U of M Principal	U of M Interest
2017	$ 62,115	$ 66,514	2017	$ 9,835	$ 12,824
2018	54,105	67,763	2018	10,260	12,455
2019	43,580	66,738	2019	10,790	11,929
2020	44,940	65,688	2020	11,335	11,375
2021-2025	47,525	66,008	2021	11,895	10,821
2026-2030	260,975	299,365	2022-2026	69,105	44,471
2031-2035	322,865	249,525	2027-2031	76,245	26,303
2036-2040	356,990	193,369	2032-2036	62,615	10,296
2041-2045	268,750	135,003	2037-2041	10,415	611
2046-2050	801,494	69,359	2042-2046	-	-
2051-2055	6,385	172	2047-2051	-	-
Total	$ 2,269,724	$ 1,279,504	Total	$ 272,495	$ 141,085
Unamortized Discounts/ Premiums Issuance Costs	14,498	-	Blank	30,178	-
Total	$ 2,284,222	$ 1,279,504	Total	$ 302,673	$ 141,085

Component Units
Revenue Bonds
Nonmajor Component Units
(In Thousands)

Year Ended June 30	OHE Principal	OHE Interest	PFA Principal	PFA Interest
2017	$ 3,045	$ 4,968	$ 83,100	$ 46,701
2018	4,255	4,752	79,740	42,661
2019	4,905	4,539	84,840	38,697
2020	4,600	4,293	86,190	34,467
2021	4,185	4,076	86,605	30,196
2022-2026	3,625	18,964	279,320	103,040
2027-2031	-	18,819	188,530	46,212
2032-2036	-	18,819	85,960	13,313
2037-2041	93,400	16,593	-	-
2042-2046	168,000	9,541	-	-
2047-2048	185,000	2,637	-	-
Total	$ 471,015	$ 108,001	$ 974,285	$ 355,287
Unamortized Discounts/Premiums and Issuance Costs	415	-	99,593	-
Total	$ 471,430	$ 108,001	$ 1,073,878	$ 355,287

Loans and Notes Payable

The Metropolitan Council received loans from the Housing Finance Agency (component unit) in calendar years 2002 and 2004 for $400,000, and $730,000, respectively. In 2004, MC received a $275,000 loan from Hennepin County Housing and Redevelopment Authority for a total of $1,405,000 of loans outstanding on December 31, 2015. The terms of the loan agreements are 30 years, although they may be extended indefinitely if all the terms of the loan agreement are met.

In calendar year 2015, MC entered into an interest-free loan agreement with the Counties Transit Improvement Board. The loan was on a reimbursement basis and will fund the purchase of five light rail vehicles. The outstanding balance of the loan was $1,949,000 on December 31, 2015.

On December 17, 2014, the University of Minnesota issued taxable commercial paper notes of $51,620,000. U of M also issued tax-exempt commercial paper notes which are backed by U of M's self-liquidity. On June 30, 2016, the outstanding commercial paper notes were $231,920,000. Commercial paper is short-term in nature and is classified as current liabilities on the financial statements.

On June 30, 2016, the Housing Finance Agency had in place a revolving line of credit with an outstanding balance of $23,000,000. The line of credit is classified as a current liability on the financial statements.

The National Sports Center Foundation refinanced a majority of its existing debt with a new bank in 2012. On December 31, 2015, the total outstanding loans and notes payable was $3,476,000.

Capital Leases

On December 1, 2004, the Metropolitan Council entered into an annual appropriation lease purchase agreement for land and facilities. The lease is subject to non-appropriation by MC, in which event the lease is terminated and there is no obligation of MC for future lease payments. MC intends to continue the lease through its entire term. On December 31, 2015, the present value of the minimum lease payments was $7,875,000.

The University of Minnesota has six distinct capital leases. Two of the six are financed through third-party financing for the purchase of fleet vehicles. The remaining four capital leases have payments being paid directly to the lessor and represent leases for buildings. On June 30, 2016, the present value of the minimum lease payments was $18,842,000.

Variable Rate Debt

University of Minnesota

To protect against future interest rate fluctuations on U of M's general obligation bonds and for budgeting purposes, U of M entered into an interest rate swap. This was a freestanding pay-fixed, receive-variable interest rate swap. At June 30, 2016, this swap was considered an ineffective hedge, where the change in fair value was included in investment income reported in the Statements of Activities. See Note 2 – Cash, Investments, and Derivative Instruments for more information.

Office of Higher Education

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15.0 percent and 12.0 percent, respectively. The interest on the Series 2008A and Series 2008B bonds was payable monthly and semi-annually, respectively. No principal payments are required until final maturity.

The rates on the tax-exempt Series 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A and 2011B bonds cannot exceed 12.0 percent. Interest payments on the Series 2011A and 2011B bonds was payable semi-annually and no principal payments were required until final maturity.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2.0 percent to 5.0 percent. The interest on the 2010 bonds was paid semi-annually. The annual effective interest rate was 4.40 percent for the year ended June 30, 2016.

The rates on the tax-exempt Series 2012B bonds are both fixed rate and variable rate. For the fixed rate bonds, the rate was set at 2.58 percent. For the variable rate bonds, the rate was a percentage of the one-month LIBOR plus a set margin and the rate changes monthly. The bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

All bond series are secured by the revenues derived by OHE from student loans financed by the proceeds of the bonds.

Housing Finance Agency

As of June 30, 2016, all of the HFA interest rate swap agreements have been determined to be effective hedges, as defined by GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments." The fair value was reported as a liability called "Interest Rate Swap Agreements." The inception-to-date change in fair value as of June 30, 2016, was reported in "Accumulated Decrease in Fair Value of Hedging Derivatives" deferred outflows of resources. Fair values were determined pursuant to GASB Statement No. 72 "Fair Value Measurement and Application," and the fair value hierarchy of interest rate swap agreements is determined to be Level 2. See Note 2 – Cash, Investment, and Derivative Instruments for more information.

Bond Defeasances

In prior years, U of M defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt-service payments on the old bonds. The amount defeased for special purpose revenue bonds 2006 Series was $99,220,000 with $99,220,000 outstanding as of June 30, 2016. The amount defeased for general obligation bonds 1982 and 1996 Series A was $271,635,000 with $106,275,000 outstanding as of June 30, 2016. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in U of M's financial statements as of June 30, 2016.

Note 14 – Segment Information

Primary Government
Segment Information Financial Data
Year Ended June 30, 2016
(In Thousands)

	Minnesota State Colleges and Universities		
	Revenue Fund	Itasca Residence Halls	911 Services
Condensed Statement of Net Position			
Assets:			
Current Assets	$ 92,766	$ 388	$ 41,863
Restricted Assets	96,875	295	-
Capital Assets	386,323	2,834	123,147
Total Assets	$ 575,964	$ 3,517	$ 165,010
Deferred Outflows of Resources	$ 2,085	$ -	$ 230
Liabilities:			
Current Liabilities	$ 29,786	$ 143	$ 16,869
Noncurrent Liabilities	315,963	1,470	98,878
Total Liabilities	$ 345,749	$ 1,613	$ 115,747
Deferred Inflows of Resources	$ 4,473	$ -	$ 1,904
Net Position:			
Net Investment in Capital Assets	$ 133,905	$ 1,234	$ 26,779
Restricted	93,922	296	20,810
Unrestricted	-	374	-
Total Net Position	$ 227,827	$ 1,904	$ 47,589
Condensed Statement of Revenues, Expenses and Changes in Net Position			
Operating Revenues - Customer Charges	$ 119,182	$ 495	$ 68,500
Depreciation Expense	(19,643)	(119)	(11,788)
Other Operating Expenses	(80,031)	(209)	(24,695)
Operating Income (Loss)	$ 19,508	$ 167	$ 32,017
Nonoperating Revenues (Expenses):			
Interest Income	$ 907	$ 4	$ 7
Capital Contributions	1,455	-	-
Interest Expense	(11,164)	(46)	(4,115)
Other	(457)	-	(16,640)
Transfers-In (Out)	-	-	(684)
Change in Net Position	$ 10,249	$ 125	$ 10,585
Beginning Net Position	217,578	1,779	37,004
Ending Net Position	$ 227,827	$ 1,904	$ 47,589
Condensed Statement of Cash Flows			
Net Cash Provided (Used) By:			
Operating Activities	$ 40,158	$ 271	$ 43,037
Noncapital Financing Activities	111	-	(36,284)
Capital and Related Financing Activities	(64,623)	(166)	(5,846)
Investing Activities	785	5	7
Net Increase (Decrease)	$ (23,569)	$ 110	$ 914
Beginning Cash and Cash Equivalents	$ 189,726	$ 241	$ 39,825
Ending Cash and Cash Equivalents	$ 166,157	$ 351	$ 40,739

The types of goods or services provided by each segment are as follows:

- MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, parking, and wellness purposes.
- MnSCU Itasca Residence Hall accounts for the construction of student housing at Itasca Community College.
- 911 Services Fund accounts for activities related to the enhancement of the state's 911 emergency response system.

Each segment has a revenue stream pledged to secure revenue bonds and provisions in the bond documents which require the separate reporting of each segment's financial operations and position.

Note 15 – Contingent Liabilities

University of Minnesota

The University of Minnesota (U of M) (component unit) issued state-secured revenue bonds to finance a football stadium on campus. In fiscal year 2006, the Minnesota Legislature appropriated from the General Fund $10,250,000 per year not to exceed 25 years starting in fiscal year 2008 to pay a portion of the bonds. Grants from the General Fund are conditioned upon satisfaction of certain requirements by U of M. As of November 2016, there was $85,490,000 outstanding on these bonds.

U of M issued state-secured revenue bonds to finance Biomedical Science Research facilities. In fiscal year 2008, the Minnesota Legislature appropriated from the General Fund amounts ranging from $850,000 to $15,550,000 per year not to exceed 25 years starting in fiscal year 2010 to pay a portion of the bonds. Grants from the General Fund are conditioned upon satisfaction of certain requirements by U of M. As of November 2016, $177,170,000 was outstanding on these bonds. All required payments of the bonds are guaranteed by the state.

Housing Finance Agency

The Housing Finance Agency (HFA) (component unit) issued state-secured appropriation bonds to provide funds for rehabilitation, construction, and mortgage loans or to refund bonds to sponsors of residential housing for families of low and moderate income. In fiscal year 2008, the Minnesota Legislature appropriated from the General Fund up to $2,400,000 per year for 22 years starting in fiscal year 2011 to pay a portion of the bonds. As of November 2016, there was $26,015,000 outstanding on these bonds.

HFA issued state-secured appropriation bonds to finance housing infrastructure. In fiscal year 2012, the Minnesota Legislature appropriated from the General Fund up to $2,200,000 per year starting in fiscal year 2014 through 2036 to pay a portion of the bonds. In fiscal year 2014, the Minnesota Legislature appropriated from the General Fund an additional $6,400,000 per year beginning in fiscal year 2016 through 2038 to pay a portion of the bonds. All required payments of the bonds are guaranteed by the state. As of November 2016, $99,680,000 was outstanding on these bonds. HFA issued additional state-secured appropriation bonds of $11,335,000 in August 2016. See Note 21 – Subsequent Events.

In fiscal year 2015, the Minnesota Legislature authorized HFA to issue an additional $10,000,000 of housing infrastructure bonds and appropriated from the General Fund up to an additional $800,000 per year beginning in fiscal year 2018 through 2039. HFA issued state-secured appropriation bonds of $7,290,000 in August 2016. See Note 21 – Subsequent Events.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55, established a school district credit enhancement program. If a school district is unable to pay its debt service due on school district and intermediate school district certificates of indebtedness, capital notes, certificate of participation, or general obligation bonds enrolled in the program, the Minnesota Legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the school district or intermediate school district, or the levy of an ad valorem tax which may be made with the approval of the commissioner of Education. The total amount of debt enrolled in the program as of November 2016 was $14.4 billion. The state has not had to make any debt service payments on behalf of school districts or intermediate school districts under this program.

City and County Credit Enhancement Program

Minnesota Statutes, Section 446A.086, established a city and county credit enhancement program. If a city or county is unable to pay its debt service due on general obligation bonds enrolled in the program issued for the construction, improvement, or rehabilitation of certain projects, the Minnesota Legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the city or county, or the levy of an ad valorem tax which may be made with the approval of the Public Facilities Authority (component unit). As of November 2016, the total general obligation bonds guaranteed by the state through 2045, was $629 million.

Note 16 – Equity

Restricted Net Position – Government-wide Statement of Net Position

The following table identifies the primary government's restricted net position in greater detail than is presented on the face of the financial statements:

Primary Government
Restricted Net Position Balances
As of June 30, 2016
(In Thousands)

	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Restricted to:				
Improve Agricultural, Environmental, and Energy Resources	$ 393,068	$ 1,179,281	$ 26,560	$ 1,598,909
Enhance Arts and Culture	17,906	-	-	17,906
Acquire, Maintain, and Improve Land and Buildings	-	-	431	431
Retire Indebtedness	967,007	-	122,202	1,089,209
Develop Economy and Workforce	-	159,784	2,612	162,396
Enhance E-12 Education	-	56,584	3,215	59,799
Enhance State Government	-	39,430	1,723	41,153
Enhance Health and Human Services	-	8,069	1,836	9,905
Enhance Higher Education	-	-	84,626	84,626
Enhance 911 Services and Increase Safety	-	44,618	23,913	68,531
School Aid - Expendable	7,568	-	-	7,568
School Aid - Nonexpendable	1,233,194	-	-	1,233,194
Construct Highways and Improve Infrastructure	1,430,584	62,094	127	1,492,805
Unemployment Benefits	-	-	1,840,708	1,840,708
Other Purposes	-	-	47,186	47,186
Total Restricted Net Position	$ 4,049,327	$ 1,549,860	$ 2,155,139	$ 7,754,326

Fund Balances – Primary Government

The following table identifies governmental fund balances of the primary government in greater detail than is presented on the face of the financial statements:

Governmental Funds
Fund Balances
As of June 30, 2016
(In Thousands)

	General Fund	Major Special Revenue Fund Federal Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	$ -	$ -	$ 42,163	$ 42,163
Trust or Permanent Fund Principal	929,967	-	1,233,194	2,163,161
Total Nonspendable Fund Balances	$ 929,967	$ -	$ 1,275,357	$ 2,205,324
Restricted to:				
Improve Agricultural, Environmental, and Energy Resources	$ 49,546	$ 3,474	$ 742,245	$ 795,265
Enhance Arts and Culture	-	-	17,906	17,906
Acquire, Maintain, and Improve Land and Buildings	-	-	99,348	99,348
Retire Indebtedness	-	-	912,299	912,299
Develop Economy and Workforce	90,409	-	132,327	222,736
Enhance E-12 Education	40,317	-	14,386	54,703
Enhance State Government	-	7,269	32,810	40,079
Enhance Health and Human Services	-	-	9,636	9,636
Enhance Higher Education	-	-	7	7
Enhance 911 Services and Increase Safety	-	-	43,386	43,386
Construct Highways and Improve Infrastructure	-	-	1,467,043	1,467,043
Total Restricted Fund Balances	$ 180,272	$ 10,743	$ 3,471,393	$ 3,662,408

Governmental Funds
Fund Balances (continued)
As of June 30, 2016
(In Thousands)

	General Fund	Major Special Revenue Fund Federal Fund	Other Funds	Total
Fund Balances:				
Committed to:				
Improve Agricultural, Environmental, and Energy Resources	$ -	$ -	$ 69,423	$ 69,423
Develop Economy and Workforce	-	-	245,741	245,741
Enhance E-12 Education	-	-	5,241	5,241
Enhance State Government	-	-	27,973	27,973
Enhance Health and Human Services	-	-	147,262	147,262
Enhance 911 Services and Increase Safety	-	-	163,302	163,302
Construct Highways and Improve Infrastructure	-	-	50,886	50,886
Total Committed Fund Balances	$ -	$ -	$ 709,828	$ 709,828
Assigned to:				
Improve Agricultural, Environmental, and Energy Resources	$ 54,636	$ -	$ -	$ 54,636
Acquire, Maintain, and Improve Land and Buildings	-	-	93,110	93,110
Develop Economy and Workforce	103,759	-	-	103,759
Enhance E-12 Education	37,543	-	-	37,543
Enhance State Government	16,505	-	-	16,505
Enhance Health and Human Services	93,072	-	505,000	598,072
Enhance Higher Education	8,680	-	-	8,680
Enhance 911 Services and Increase Safety	28,000	-	-	28,000
Construct Highways and Improve Infrastructure	22,859	-	-	22,859
Total Assigned Fund Balances	$ 365,054	$ -	$ 598,110	$ 963,164
Unassigned:	$ 1,571,798	$ -	$ -	$ 1,571,798
Total Fund Balances	$ 3,047,091	$ 10,743	$ 6,054,688	$ 9,112,522

Net Position Deficits

The following funds have net position deficits for the fiscal year ended June 30, 2016.

Net Position Deficits As of June 30, 2016 (In Thousands)	Net Position
Enterprise Funds	
Behavioral Services	$ (15,443)
State Auditor	(3,539)
State Lottery	(9,751)
State Operated Community Services	(26,097)
Internal Service Funds	
Central Services	$ (974)
MN.IT Services	(179,884)
Pension Trust Fund	
Legislators Retirement	$ (41)

The fiscal year 2015 implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" required the recording of the net pension liability and the deferred inflows and outflows of resources associated with pensions. This caused the nonmajor enterprise and internal services funds noted in the table above to end fiscal year 2016 in a deficit net position. The actuarially determined amounts are likely to vary significantly from year to year and are managed by the retirement systems and the Minnesota Legislature to ensure the defined benefit plans are adequately funded to pay plan benefits to employees participating as they become due. For these reasons, the state does not include the pension-related liabilities or deferred inflows and outflows of resources in the rate-setting process for managing these funds as long as the funds are contributing the statutory required contributions. The amounts will continue to be monitored by the retirement systems administering these plans and the Minnesota Legislature.

Two of the enterprise funds have net position deficits for reasons in addition to the implementation of GASB Statement No. 68, and one pension trust fund has a net position deficit for reasons unrelated to GASB Statement No. 68. See the following for explanations:

Behavioral Services Fund (enterprise fund) has been experiencing a change in population served and service rates over the past few years which resulted in an annual deficit net position. During the 2015 Legislative Session, the Minnesota Legislature provided a supplemental appropriation. In addition, the Centers for Medicare and Medicaid approved a complex committed service rate in September 2016 which was retroactive to October 2015. The additional rate is expected to partially reduce the operating loss of the program but will not remove the need for the on-going appropriation.

State Operated Community Services Fund (enterprise fund) has seen a steady decline in operating income which resulted in a deficit net position. To maintain operations, the Department of Human Services transferred appropriated fiscal year 2017 funds from another state-operated program. Legislative action in 2016 provided one-time funds to replace the borrowed funds and provided fiscal year 2017 operating funds to cover the anticipated operating losses while the program is redesigned.

Legislators Retirement Fund (pension trust fund) has a net position deficit because it operates on a pay-as-you-go basis. See Note 8 – Pension and Investment Trust Funds for additional information.

Note 17 – Risk Management

Primary Government

The state is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors and omissions; and to employer obligations. The state manages these risks through the Risk Management Fund (internal service fund), a self-insurance fund, and other insurance and self-funding mechanisms. All health plans are self-insured.

Risk Management Fund

State agencies may elect to participate in the Risk Management Fund (internal service fund), which offers auto, liability, property, and related coverage. The agencies pay a premium to participate in this coverage. All agencies that own state vehicles are required to purchase automobile liability coverage from the fund.

The property coverage offers an agency a range of deductibles from $1,000 through $250,000 per loss. The fund covers the balance of the claim up to $1,000,000. The reinsurance program provides coverage up to $1,000,000,000. Once annual aggregate losses paid by the Risk Management Fund reach $2,500,000 in any one fiscal year, the reinsurer will provide coverage in excess of a $25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the Minnesota Legislature.

The liability coverage is up to the statutory limit (tort claims cap) of $500,000 bodily injury and property damage per person, and $1,500,000 bodily injury and property damage per occurrence. The casualty reinsurance program provides $10,000,000 excess of a $1,000,000 retention to protect the state from auto and general liability claims that are extra-territorial, as well as for suits brought in federal court which would be outside the state's jurisdiction.

The Risk Management Fund purchases insurance policies for state agencies seeking insurance for specialized insurance needs for which the state does not self-insure. These coverages include aviation, medical malpractice, and foster care liability. The premiums for these policies are billed back to the agencies at cost.

Minnesota Statutes, Section 15.38, Subdivision 8, permits the purchase of insurance on state-owned buildings and contents.

All losses of state property are covered by programs of the Risk Management Fund, by insurance policies purchased in the commercial market, or are uninsured and become the liability of the state.

Tort Claims

State agencies may elect to participate in the Risk Management Fund and obtain coverage for selected exposures, subject to the tort claims limits. Agencies not electing to participate in the Risk Management Fund are responsible for paying the cost of claims from their operating budget. The Minnesota Legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the Minnesota Legislature. Tort claims brought outside Minnesota state jurisdiction and in federal court have unlimited liability exposure.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation-related claims and provides workers' compensation insurance coverage for state employees. The program provides a full-service workers' compensation insurance program, including workplace safety and loss control, rehabilitative and return to work services, claim services, and legal services.

The program is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $2,000,000.

The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. State agencies may participate in either a 'pay-as-you-go' revolving fund or a premium pool cost allocation fund. These costs are paid from each agency's operating budget.

The state estimates the liability for reported claims that have not yet been settled. These costs include anticipated indemnity and medical benefits related to the reported claim.

State Employee Group Insurance Program

The Minnesota Legislature created the Employee Insurance Fund, an internal service fund dedicated solely for the purpose of this program. The fund is administered by SEGIP, to provide eligible employees and other eligible persons with life insurance and hospital, medical, and dental coverage through provider organizations. The Employee Insurance Fund is not associated with any other public risk pools. A contingency reserve is maintained to increase the controls over medical plan provisions and other insurance costs for the purpose of moderating premium and claim fluctuations, and to assume all inherent risk associated with the self-funded insurance programs, which would also include losses to the fund.

SEGIP provides benefits coverage to employees by contracting with carriers through a network of providers throughout the state. SEGIP had settlements of $4,963,862 greater than coverage during the fiscal year ended June 30, 2016.

In January 2000, the fund became fully self-insured for medical coverage and assumed all liability for medical claims. The self-funded programs within the fund establish claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not paid and of claims that have been incurred but not reported. These estimates are agreed to by the insurance carriers and the state and are reviewed for accuracy and reasonableness. The estimates are based on claim experience and claim lag timetables provided by the carriers and do not include additional estimates for subrogation, salvage, or unallocated claim adjustments.

Public Employees Insurance Program

The Public Employees Insurance Program (PEIP) is a public entity risk pool currently operating as an insurance program. The risk pool was created by the Minnesota Legislature to provide public employees and other eligible persons with life insurance and hospital, medical, and dental coverage to result in a greater utilization of government resources and advance the health and welfare of the citizens of the state. The enabling legislation for PEIP is Laws of Minnesota, 1987, codified as Minnesota Statutes, Section 43A.316. Beginning in fiscal year 1998, medical benefits provided through PEIP became a self-insured program.

PEIP's membership as of June 30, 2016, was 9,880 members and their dependents. The members of the pool include 79 school districts, 27 cities/townships, 6 counties, and 12 other public employers. PEIP provides medical benefits coverage to public employees through a self-insured statewide program administered through several private-sector claims administrators/managed care organizations, as well as fully insured life and dental coverage. The pool will be self-sustaining through member premiums. Stop-loss coverage was discontinued effective January 1, 2015.

The pool establishes claims liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported.

Primary Government
Self-Insured Claim Liabilities
(In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Risk Management Fund				
Fiscal Year Ended 6/30/15	$ 9,531	$ 4,100	$ 1,880	$ 11,751
Fiscal Year Ended 6/30/16	$ 11,751	$ 1,140	$ 3,368	$ 9,523
Tort Claims				
Fiscal Year Ended 6/30/15	$ -	$ 878	$ 878	$ -
Fiscal Year Ended 6/30/16	$ -	$ 920	$ 920	$ -
Workers' Compensation				
Fiscal Year Ended 6/30/15	$ 102,185	$ 12,778	$ 22,046	$ 92,917
Fiscal Year Ended 6/30/16	$ 92,917	$ 15,606	$ 19,368	$ 89,155
State Employee Insurance Plans				
Fiscal Year Ended 6/30/15	$ 63,969	$ 740,456	$ 733,145	$ 71,280
Fiscal Year Ended 6/30/16	$ 71,280	$ 770,413	$ 771,306	$ 70,387

Primary Government
Public Employee Insurance Program
Medical Claims
(In Thousands)

	Year Ended June 30	
	2016	2015
Unpaid Claims and Claim Adjustment Expenses, Beginning	$ 8,376	$ 7,535
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	$ 97,089	$ 78,705
Increases (Decreases) in Provision for Insured Events of Prior Years	1,163	536
Total Incurred Claims and Claim Adjustment Expenses	$ 98,252	$ 79,241
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$ 87,378	$ 70,741
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	8,822	7,659
Total Payments	$ 96,200	$ 78,400
Total Unpaid Claims and Claim Adjustment Expenses, Ending	$ 10,428	$ 8,376

Component Units

Housing Finance Agency

The Housing Finance Agency (HFA) is exposed to various insurable risks of loss related to tort; to theft of, damage to, or destruction of assets; to errors or omissions; and to employer obligations. HFA manages these risks through the primary government's insurance plans including the primary government's Risk Management Fund (internal service fund) and through purchased insurance coverage. HFA retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years. HFA participates in the SEGIP, which is administered by the Employee Insurance Fund (internal service fund). This program provides life insurance and hospital, medical, and dental coverage through provider organizations. HFA also participates in the primary government's Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims.

Metropolitan Council

The Metropolitan Council (MC) is exposed to various risks of loss related to torts; to theft of, damage to, and destruction of assets; to errors and omissions; and to employer obligations. MC both purchases commercial insurance and self-insures for these risks of loss. MC has not experienced any significant reductions in insurance coverage from the prior year. MC has not had any settlements in excess of commercial coverage for the past three years.

MC purchases general liability insurance to protect all divisions of MC and recognizes a current liability for incurred, reported claims, and a long-term liability for claims incurred but not reported. Claims liabilities are calculated considering recent claim settlement trends including frequency and amount of payouts. Minnesota Statutes, Section 466.04, generally limits MC's tort exposure to $500,000 per claim and $1,500,000 per occurrence for a claim arising on or after July 1, 2009. For claims arising earlier, the limits are $400,000 per claim and $1,200,000 per occurrence. In addition, an amount equal to twice these limits applies if the claim arises out of the release or threatened release of a hazardous substance.

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a discount rate of 3.02 percent. The self-insurance retention limit for workers' compensation is $1,960,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

MC claims include both workers' compensation claims and $328,000 for the Family Self Sufficiency program escrow accounts.

University of Minnesota

The University of Minnesota (U of M) is self-insured for medical malpractice, general liability, directors' and officers' liability, and automobile liability through RUMINCO, Ltd., a wholly-owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and estimates claim liabilities. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported claims using a discount rate of 0.75 percent.

U of M is also self-insured for workers' compensation through an internally maintained fund. The internal fund for workers' compensation is maintained only to fund current year expected payouts. Excess insurance is maintained through the Workers' Compensation Reinsurance Association. Each year, an actuarial estimate of U of M's liability for workers' compensation is compiled and recorded, but the liability is not funded in a separate reserve.

U of M's medical (health) and dental coverage for faculty and staff is a self-insured program. Under the plan, U of M pays claims, while the administration of the program is handled by independent administrators. U of M's graduate assistant medical plan and student health plan are also self-insured. Each year, an actuarial estimate of U of M's liability for medical claims, including incurred but not reported claims, is recorded.

Component Units
Claims Liabilities
(In Thousands)

	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council - Workers' Compensation				
Fiscal Year Ended 12/31/14	$ 16,642	$ 5,722	$ 5,692	$ 16,672
Fiscal Year Ended 12/31/15	$ 16,672	$ 11,281	$ 6,279	$ 21,674
University of Minnesota - RUMINCO, Ltd.				
Fiscal Year Ended 6/30/15	$ 7,542	$ 1,522	$ 2,358	$ 6,706
Fiscal Year Ended 6/30/16	$ 6,706	$ 2,297	$ 825	$ 8,178
University of Minnesota - Workers' Compensation				
Fiscal Year Ended 6/30/15	$ 13,046	$ 3,329	$ 2,401	$ 13,974
Fiscal Year Ended 6/30/16	$ 13,974	$ 3,640	$ 4,849	$ 12,765
University of Minnesota - Medical/Dental				
Fiscal Year Ended 6/30/15	$ 22,045	$ 250,460	$ 252,278	$ 20,227
Fiscal Year Ended 6/30/16	$ 20,227	$ 255,957	$ 249,957	$ 26,227

Note 18 – Budgetary Basis vs. GAAP

Actual revenues, transfers-in, expenditures, encumbrances, and transfers-out on the budgetary basis do not equal those on the GAAP basis in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund, and loan transactions. In addition, encumbrances are recognized as expenditures in the year encumbered on a budgetary basis. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. The GAAP General Fund also includes several funds that are not included in the budgetary General Fund. A reconciliation of the fund balances under the two basis of accounting for the General Fund is provided in the following table.

General Fund
Reconciliation of GAAP Basis Fund Balance
to Budgetary Fund Balance
As of June 30, 2016
(In Thousands)

GAAP Basis Fund Balance:	$ 3,047,091
Less: Encumbrances[1]	259,974
Unassigned Fund Balance	$ 2,787,117
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (433,630)
Tax Refunds Payable	567,361
Human Services Receivable	(93,206)
Unearned Revenue	177,947
Escheat Asset	(14,218)
Other Receivables	(15,925)
Permanent School Fund Reimbursement	(1,400)
Investments at Market	8,786
Expenditure Accruals/Adjustments:	
Medical Care Programs	593,532
Human Services Grants Payable	52,842
Education Aids	856,634
Police and Fire Aid	98,313
Other Financial Sources (Uses):	
Transfer-In	(13,397)
Perspective Differences:	
Account with no Legally Adopted Budget	(1,423,071)
Long-Term Receivables	(12,950)
Appropriation Carryover	(196,988)
Budgetary Reserve	(1,969,057)
Budgetary Basis:	
Unassigned Fund Balance	$ 968,690

[1] Encumbrances related to funds included in the budgetary General Fund.

Note 19 –Litigation

1) Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable, or from funds appropriated for the payment of tort claims. The Tort Claims appropriations for each of the fiscal years ending June 30, 2016, and 2017 are $761,000. The maximum limit of liability for tort claims arising out of a single occurrence in Minnesota on or before January 1, 2000, and before January 1, 2008, is $1,000,000. The maximum limited liability for any one claim is $300,000 for claims arising before August 1, 2007, and $400,000 for claims arising on or after August 1, 2007, and before July 1, 2009, for any one claim and the maximum limits of liability for tort claims arising in Minnesota on or after January 1, 2008, and prior to July 1, 2009, is $1,200,000 for any number of claims arising out of a single occurrence. For tort claims arising in Minnesota on or after July 1, 2009, the maximum limits are $500,000 for any one claim and $1,500,000 for any number of claims arising out of a single occurrence.

2) Lawsuits based on non-tort theories furnish another basis for potential liability. The following cases, or categories of cases, in which the state, its officers or employees, are defendants have been noted because an adverse decision in each case or category of case could result in an expenditure of state moneys of over $15 million in excess of current levels.

   a. At any one time, there are hundreds of Minnesota Department of Transportation (MnDOT) eminent domain actions being litigated in district courts throughout the state. There is a continuous flow of such cases, with the actual number depending on many factors such as the number of parcels of land that can be acquired by direct purchase, the construction needs of the department, and revenues available for highway projects. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds $15 million. Liability arising out of decisions unfavorable to the state may impact the state's Trunk Highway Fund (special revenue fund).

   b. *A.W. Kuettel & Sons, Inc., et al. v. Essar Steel Minnesota LLC, et al.* (Itasca County District Court) and *TrueNorth Steel, Inc. v. Essar Steel Minnesota LLC* (Itasca County District Court). These mechanics' lien suits involve numerous parcels of property surrounding the Essar Steel Minnesota Integrated Pellet Plant in Nashwauk, Minnesota. The state is a named defendant in these suits because it owns some of the subject parcels. The state's parcels were leased to Essar Steel Minnesota LLC (Essar) for mining purposes; however, Essar filed for Chapter 11 bankruptcy. A.W. Kuettel, TrueNorth Steel, and approximately eight other contractors and subcontractors, which supplied materials and/or labor to the properties for Essar, have filed claims and cross-claims against the state and the other defendants that total approximately $42 million exclusive of interest and attorneys' fees. The claims allege the state is liable for the amounts owing because the state has an ownership interest in some of the properties, had knowledge of the improvements, will be unjustly enriched by the improvements, and violated the Public Contractors' Performance and Payment Bond Act by not obtaining payment bonds for these matters. These suits are currently stayed and will remain stayed until further order in Essar's bankruptcy case.

   c. *Foster v. State of Minnesota et al.* (U.S. District Court for the District of Minnesota). Plaintiff sued the state, the current Attorney General, and the Commissioner of the Department of Management and Budget alleging an unconstitutional taking of her property on the basis that the state released her statutory consumer fraud claims against major tobacco companies as part of the state's 1998 tobacco settlement. The 1998 settlement provided for up-front and annual payments to the state and injunctive relief, in exchange for which the state released its statutory consumer protection claims against the settling tobacco companies. In 2012, the Minnesota Supreme Court held that this release included related statutory consumer protection claims that might be prosecuted by private Minnesota consumers under the authority provided in Minnesota Statutes, Section 8.31, Subdivision 3a. Plaintiff previously brought a taking claim on the same theory in state court, which was dismissed for failure to state a claim and on the basis of the applicable statute of limitations. The Minnesota Court of Appeals affirmed the dismissal on the statute of limitations

basis without addressing the merits of the takings claim. The Minnesota Supreme Court denied plaintiff's petition for certiorari review. Plaintiff then re-filed the takings claim in federal court, alleging that her federal takings claim is sufficiently distinct from her state takings claim and that it can be pursued separately in federal court. The state filed a motion to dismiss which is fully briefed and set for argument on December 14, 2016.

   d. *Guggenberger et al. v. State, et al.* and *Gordon, et al. v. DHS, et al.* (United States District Court, District of Minnesota). In *Guggenberger,* Plaintiffs filed suit in August 2015 alleging that the Department of Human Services' operation of the Medicaid Home and Community Based Waiver Services ("HCBS") programs violates (1) the reasonable promptness provision of the Medicaid Act; (2) the integration mandate of the Americans with Disabilities Act; (3) the free choice provision of the Medicaid Act; (4) Plaintiffs' right to Due Process; and (5) Section 504 of the Rehabilitation Act. Plaintiffs seek class certification. Plaintiffs amended their complaint, and Defendants moved to dismiss. The district court granted the motion to dismiss in part and denied it in part (it dismissed the state and DHS as parties, but did not dismiss any claims). Plaintiffs request relief to require the state to fund and provide Waiver Services to all waiver-eligible individuals currently on a waiting list, and that cost likely exceeds $15 million. In *Gordon*, the plaintiffs receive Waiver Services and brought claims under the Medicaid Act, the Fourteenth Amendment, the Americans with Disabilities Act, and the Rehabilitation Act, seeking, among other things, access to "individualized housing services." Defendants brought a motion to dismiss, which is now fully briefed and scheduled for hearing in January 2017. The court also ordered discovery to proceed.

   e. *Hall v. State* (Ramsey County/Minnesota Court of Appeals). In a putative class action filed in 2015, four plaintiffs challenge Minnesota's Uniform Disposition of Unclaimed Property Act ("MUPA"), alleging it deprives them of property without due process and without just compensation as no interest is paid to owners when they claim their unclaimed property. Plaintiffs seek class certification, damages, declaratory and injunctive relief, and attorneys' fees. The district court denied defendants' motion to dismiss and certified the takings and due process claims to the court of appeals as important and doubtful. The matter is currently under consideration by the court of appeals. Plaintiffs allege that the state holds over $600 million in unclaimed property. If the class is certified and Plaintiffs prevail on their claims, the state's exposure may exceed $15 million.

   f. *H.B Fuller Co. and Subsidiaries v. Commissioner of Revenue* (Minnesota Tax Court). This is a corporate franchise tax case filed in October 2016 involving computation of the research credit allowed by Minnesota Statutes, Section 290.068. Department of Revenue estimates that if similarly situated taxpayers make a similar claim, the total exposure may exceed $15 million.

   g. *Hospital Surcharge Litigation.* There are numerous appeals by providers, including various hospital systems, challenging the imposition of a tax on net patient revenue under Minnesota Statutes, Section 256.9657. Many of the appeals challenge the imposition of the tax on revenues the appellants claim they receive from the Federal Employees Health Benefits Act (FEHBA) and the Tricare Program (collectively known as "FEHBA/TRICARE"), two health insurance programs that serve federal employees, federal retirees, and active and retired members of the United States military and their families, on the basis that the state tax is preempted. Some appellants also appeal on the basis that a particular service provided is not subject to the tax. The Minnesota Supreme Court held that the state tax is not preempted. The time for the hospitals to seek review at the United States Supreme Court has not expired. In the aggregate, the state's exposure from all of these appeals likely exceeds $15 million.

   h. *The Jamar Company d/b/a Asdco v. State of Minnesota, et. al.* (Itasca County District Court) and *Hammerlund Construction Inc., et al. v. State of Minnesota, et. al*. (Itasca County District Court). These mechanics' lien suits involve similar claims but different tax-forfeited properties in Itasca County. The subject properties were leased by Itasca County to Magnetation LLC (Magnetation) for mining purposes; however, Magnetation filed for Chapter 11 bankruptcy. The state is a named defendant in these suits because it owns the subject properties in trust for Itasca County, the

taxing district, which has the authority to manage the properties. Jamar, Hammerlund, and approximately 20 other contractors and subcontractors, which supplied materials and/or labor to the properties for Magnetation, have filed claims and cross-claims against the state and the other defendants that total approximately $22.2 million exclusive of interest and attorneys' fees. The claims allege the state is liable for the amounts owing because the state has an ownership interest in the properties, had knowledge of the improvements, will be unjustly enriched by the improvements, and violated the Public Contractors' Performance and Payment Bond Act by not obtaining payment bonds for these matters. These suits are currently stayed and will remain stayed until further order in Magnetation's bankruptcy case.

i. *Kimberly-Clark Corporation & Subsidiaries v. Commissioner of Revenue* (Minnesota Tax Court). The taxpayer filed an appeal in the Minnesota Tax Court challenging the Commissioner's denial of the taxpayer's refund claims. The taxpayer alleges it is entitled to elect a corporate tax apportionment formula set forth in the Multistate Tax Compact, even though the Minnesota Legislature repealed that provision of the Compact from the Minnesota Statutes in 1987. Resolution of this case may impact the Commissioner's assessments against other multistate tax filers and may impact refund claims corporate taxpayers have and may file with the Commissioner. As of February 2015, multiple corporate taxpayers had filed about $180 million in refund claims, with estimated potential total refunds of $700 million. On June 19, 2015, the Minnesota Tax Court granted summary judgment to the Commissioner of Revenue. The taxpayer appealed to the Minnesota Supreme Court. On June 22, 2016, the Minnesota Supreme Court dismissed the taxpayer's claims, finding that the claims failed as a matter of law. The taxpayer filed a petition for writ of certiorari to the U.S. Supreme Court on October 20, 2016.

j. *Kiminski v. Hunt et al (formerly Beach/Ness v. Hunt et al.)* and similar matters. In January of 2013, the Department of Natural Resources (DNR) notified approximately 5,000 residents that their drivers' license data may have been improperly viewed by former DNR employee John Hunt. Since the notification, five putative class actions have been filed in federal court against DNR, the Department of Public Safety, and various state employees in their individual and official capacities alleging violations of federal and state law resulting from Hunt's conduct. The suits have all been consolidated and a consolidated amended complaint has been filed. The suits include claims for relief under the federal Drivers Privacy Protection Act and 42 U.S.C. § 1983. The plaintiffs seek statutory damages, actual damages, punitive damages, injunctive relief, and attorneys' fees. Other similar cases have been filed against other state employees in their individual and official capacities alleging plaintiffs' drivers' license data may have been improperly viewed by state employees. Motions to dismiss were filed and granted by the district court in each case. The Eighth Circuit Court of Appeals has affirmed the dismissal of state defendants in each case it has decided. Two decisions remain pending in the Eighth Circuit and several other cases remain pending in the district court while it addresses the claims of non-state defendants. The U.S. Supreme Court denied certiorari review of the only case in which the plaintiffs sought review.

k. *McLane Minnesota, Inc. v. Commissioner of Revenue* (Minnesota Tax Court). Stipulations for dismissal have been filed, but orders for dismissal have not yet been issued.

l. *Minnesota Energy Resources Corp. (MERC) v. Commissioner of Revenue* (Minnesota Tax Court). The plaintiff, a natural gas pipeline corporation, appeals the market valuations made of the pipeline corporation's real, personal, and operating property subject to assessment in 53 counties in Minnesota. The separate appeals for tax years 2008-2012 are consolidated. MERC has also filed separate appeals for 2013 and 2014. The pipeline corporation argues: (1) that the Commissioner has failed to correctly determine the market value (as defined in Minnesota Statutes, Section 272.03, Subdivision 8) of the pipeline's property in Minnesota and in its determination has employed methods which overstate the market value and arrived at a value in excess of market value; and (2) that the pipeline's property in Minnesota was unfairly and unequally assessed compared to property in the same class and the property of similarly situated taxpayers in violation of Minnesota Statutes, Section 273.11, the Equal Protection Clause; the Uniformity of Taxation Clause (Art. X, Sec. 1), and the Due Process Clause of the Minnesota Constitution and the Equal Protection and Due Process Clause of U.S. Constitution. The

apportionable 2008 market value for this property is $126 million under the Minnesota rule in effect for 2008. A new Minnesota rule governs calculation for 2009-2011 tax years. MERC objects to both the old and new rules. Specifically, MERC disagrees with how the capitalization rate is calculated, the fact that external obsolescence is not included in depreciation and the weighting of cost factors and, thus, claim that the property tax assessments are not applied evenly throughout Minnesota. In September 2014, the Tax Court issued a decision in the 2008-2012 consolidated cases. The decision upheld certain of MERC's claims and denied other claims. For all five years combined, the net result of the Tax Court's decision is that MERC would receive a total refund of $1.35 million, only 30 percent of which would be the state's share. Both sides appealed to the Supreme Court with oral argument held on November 4, 2015. The 2013 and 2014 appeals have been stayed pending final resolution of the 2008-2012 cases. On November 9, 2016, the Minnesota Supreme Court issued an opinion affirming in part and reversing in part the Minnesota Tax Court's decision, and it remanded the case for further proceedings.

m. *Walgreens Specialty Pharmacy v. Commissioner of Revenue* (Minnesota Tax Court). This is a Legend Drug Use Tax case. Appellant sought a refund totaling $14,434,159.70 for tax years 2008 through 2013, which was denied. Appellant argues that the Department of Revenue misapplied the applicable statute. Appellant also argues that the use tax is unconstitutional under the Due Process and Commerce Clauses of the United States Constitution and is also preempted by federal law. The case is currently in discovery and dispositive motions must be filed and served by May 19, 2017. The Department of Revenue estimates that if similarly-situated taxpayers successfully brought refund claims, the total exposure would exceed $139 million.

Note 20 – Prior Period Adjustment, Change in Reporting Entity and Change in Fund Structure

Primary Government

Prior Period Adjustments

During fiscal year 2016, the Department of Natural Resources increased land in governmental activities for land that was previously donated but unrecorded as well as adjusting the value of land that was disposed of at fair value instead of at historical cost. This change resulted in an increase in Land. A prior period adjustment of $93.3 million was reflected in Governmental Activities in the government-wide financial statements. See Note 6 – Capital Assets for additional information.

During fiscal year 2016, the Department of Human Services calculated the impact of a federal law change that increased the federal share of expenditures; thus, overstating the state's share. This resulted in a prior period adjustment of $33.7 million in the General Fund and $4.7 million in the Health Care Access Fund (special revenue fund). These amounts also resulted in a prior period adjustment of $38.4 million in Governmental Activities in the government-wide financial statements.

During fiscal year 2016, the Department of Revenue identified an overstatement of accounts receivable in the prior year. A $45.7 million prior period adjustment was reflected in Governmental Activities in the government-wide financial statement as a result of this overstatement of revenue.

Change in Reporting Entity

Minnesota Statutes, Section 353G, allows volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2016, fourteen firefighter groups joined the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association. Investment balances of $3.4 million were reported as a change in reporting entity in the Volunteer Firefighter Retirement Fund.

Change in Fund Structure

Minnesota Statutes, Chapter 353G, allows volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2016, six firefighter groups moved from the volunteer fire accounts, part of the Supplemental Retirement Fund (investment trust fund), into the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association. The transfer was reported as a change in fund structure of $3.9 million in the Supplemental Retirement Fund and the Volunteer Firefighter Retirement Fund.

Note 21 – Subsequent Events

Primary Government

On July 28, 2016, Fitch Ratings upgraded the state's general obligation bond rating to AAA from AA+.

On August 11, 2016, the state sold $265.9 million of general obligation state various purpose bonds Series 2016A at a true interest rate of 2.29 percent, $215.0 million of general obligation state trunk highway bonds Series 2016B at a true interest rate of 2.13 percent, $7.5 million general obligation taxable state various purpose bonds Series 2016C at a true interest rate of 1.38 percent, and $310.6 million of general obligation state various purpose refunding bonds Series 2016D at a true interest rate of 1.57 percent. These bonds are backed by the full faith and credit and taxing powers of the state.

On November 1, 2016, the state sold $91.7 million of 911 revenue refunding bonds (Public Safety Radio Communications System Project) Series 2016 at a true interest rate of 1.06 percent. The proceeds of the bonds will be used to defease and refund, on an advance refunding basis, the outstanding maturities of the state's 911 Revenue Bonds Series 2008, Series 2009, Series 2011, and pay the costs associated with the issuance of the bonds. The revenue bonds are secured by the 911 fee charged to subscribers connected to the public switched networks that furnish service capable of originating a 911 emergency telephone call in the state.

On November 2, 2016, the state sold $11.8 million of state General Fund appropriation bonds taxable Series 2016A at a true interest rate of 2.83 percent. The bonds were issued to finance the completion of the next phase of the Lewis and Clark Regional Water System Project, including the costs associated with the completion of a water transmission pipeline in southwest Minnesota. For information on the state appropriation for these bonds, see Note 12 – Long-Term Liabilities – Primary Government.

Component Units

On August 16, 2016, the Housing Finance Agency (HFA) issued state appropriation bonds (Housing Infrastructure) for $10.4 million Series 2016A at a true interest rate of 2.80 percent, $0.9 million Series 2016B at a true interest rate of 1.14 percent, and $7.3 million Series 2016C at a true interest rate of 2.68 percent. The proceeds of the bonds will be used to provide money to fund housing infrastructure loans and to pay the costs of issuance of the Series Bonds. The state will provide to HFA up to an additional $800,000 per year beginning in fiscal year 2018 through fiscal year 2039 for the payment of the bonds. For information on the state appropriation for these bonds, see Note 15 – Contingent Liabilities.

Modified Approach for Infrastructure

The state uses the modified approach for reporting selected infrastructure assets. Under this approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 3,000 bridges and tunnels maintained by the state.

To utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Lane Miles of Pavement

Measurement Scale

The Minnesota Department of Transportation (MnDOT) uses three pavement condition indices to determine the condition of the trunk highway system: Present Serviceability Rating (PSR), Surface Rating (SR), and Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking), and the PQI is a composite index equal to the square root of the PSR multiplied by the SR.

The five qualitative categories used to describe pavement condition are shown in the table below:

Description	PQI Range	PSR Range	SR Range
Very Good	3.7 - 4.5	4.1 - 5.0	3.3 - 4.0
Good	2.8 - 3.6	3.1 - 4.0	2.5 - 3.2
Fair	1.9 - 2.7	2.1 - 3.0	1.7 - 2.4
Poor	1.0 - 1.8	1.1 - 2.0	0.9 - 1.6
Very Poor	0.0 - 0.9	0.0 - 1.0	0.0 - 0.8

The PQI is used as the index for determining whether the pavement infrastructure is being maintained in a serviceable level. The PQI is an overall index, combining both pavement smoothness (PSR) and cracking (SR).

Established Condition Level

Principal arterial pavements will be maintained at 3.0 PQI (good) or higher, and all other pavements will be maintained at 2.8 PQI (good) or higher.

Assessed Conditions

The state assesses condition on 100 percent of the pavement surfaces at least once every two years.

	Principal Arterial Average PQI	Non-Principal Arterial Average PQI
2015	3.42	3.32
2014	3.41	3.35
2013	3.40	3.26

Bridges and Tunnels

Measurement Scale

MnDOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating is used to determine if the bridge system is being maintained at a serviceable level for the condition of the bridges under MnDOT's jurisdiction.

The Structural Condition Rating is a broad measure of the structural condition of a bridge. Each bridge is rated as Good, Fair, or Poor by using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings to place each bridge in a category.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. Both the condition codes and the appraisal ratings use a scale of 0 (failed) through 9 (excellent).

Rating	Description
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound, but may have some minor section loss, cracking, spalling, or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service, beyond corrective action.

The criteria for placing a bridge in each of the three categories are as follows:

Rating	Description
Good	If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.
Fair	If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.
Poor	If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient.

Established Condition Level

Ninety-two percent of principal arterial system bridges will be maintained at fair to good, while 80 percent of all other system bridges will be maintained at fair to good.

Assessed Conditions

Principal Arterial	2015	2014	2013
Fair to Good	94.9%	95.2%	94.9%

All Other Systems	2015	2014	2013
Fair to Good	94.4%	93.8%	93.6%

Budgeted and Estimated Costs to Maintain

The following table presents the state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the Established Condition Levels cited above, and the actual amount spent (in thousands):

		Costs to be Capitalized			Maintenance of System			
		Bridges	Pavement	Total Costs	Bridges	Pavement	Total Costs	Total Construction Program
Budget	2016	$ 234,366	$ 400,943	$ 635,309	$ 112,444	$ 462,387	$ 574,831	$ 1,210,140
	2015	255,033	230,075	485,108	55,789	403,213	459,002	944,110
	2014	251,019	248,841	499,860	78,143	627,255	705,398	1,205,258
	2013	179,581	289,898	469,479	36,480	691,872	728,352	1,197,831
	2012	257,442	288,138	545,580	23,111	504,601	527,712	1,073,292
Actual	2016	$ 232,087	$ 403,563	$ 635,650	$ 79,748	$ 652,665	$ 732,413	$ 1,368,063
	2015	197,844	384,351	582,195	71,852	606,939	678,791	1,260,986
	2014	233,201	301,058	534,259	64,837	593,933	658,770	1,193,029
	2013	137,387	190,739	328,126	58,127	615,638	673,765	1,001,891
	2012	105,736	158,438	264,174	64,810	571,693	636,503	900,677

Defined Benefit Plans – State Participating

The state of Minnesota currently contributes as an employer and/or non-employer contributing entity into four primary government administered multiple-employer cost sharing plans, one non-primary government administered multiple-employer cost sharing plans, and three primary government administered single-employer plans. During the fiscal year 2015 reporting period, the Minneapolis Employees Retirement Fund merged with the General Employees Retirement Fund and the Duluth Teachers' Retirement Fund merged with the Teachers Retirement Fund. See Note 8 – Pension and Investment Trust Funds for more information on each plan.

Required supplementary information is provided for the following plans:

- State Employees Retirement Fund (SERF)
- Correctional Employees Retirement Fund (CERF)
- General Employees Retirement Fund (GERF)
- Minneapolis Employees Retirement Fund (MERF)
- Teachers Retirement Fund (TRF)
- Duluth Teachers' Retirement Fund (DTRF)
- St. Paul Teachers' Retirement Fund (SPTRF)
- Judges Retirement Fund (JRF)
- Legislators Retirement Fund (LRF)
- State Patrol Retirement Fund (SPRF)

Required Supplementary Information
Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions
(In Thousands)

	SERF			CERF			GERF		
	2014	2015[2]	2016	2014	2015[3]	2016	2014	2015[4]	2016
Statutorily Required Contribution as an: Employer[1]	$ 93,957	$ 107,313	$ 110,804	$ 26,421	$ 29,378	$ 30,624	$ 2,782	$ 2,655	$ 2,540
Non-Employer Contributing Entity[1]	-	-	-	-	-	-	-	-	6,000
Total Statutorily Required Contribution	$ 93,957	$ 107,313	$ 110,804	$ 26,421	$ 29,378	$ 30,624	$ 2,782	$ 2,655	$ 8,540
Covered-Member Payroll	$1,923,040	$2,006,862	$2,032,073	$ 218,860	$ 231,126	$ 238,416	$ 37,715	$ 34,289	$ 39,886
Required Employer Contributions as a Percentage of Covered-Member Payroll	4.9%	5.3%	5.5%	12.1%	12.7%	12.8%	7.4%	7.7%	6.4%

(1) Statutorily required contributions equal actual required contributions.
(2) SERF 2015: The required contribution rate for employers increased from 5.0% to 5.5%.
(3) CERF 2015: The required contribution rate for employers increased from 12.1% to 12.9%.
(4) GERF 2015: The required contribution rates for employers increased from 7.3% - 11.8% to 7.5% - 11.8% on January 1, 2015.

Note: Data begins in fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015.

Required Supplementary Information
Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions
(In Thousands)

	MERF[2]		TRF		
	2014	2015	2014	2015[3]	2016
Statutorily Required Contribution as an:					
Employer[1]	$ -	$ -	$ 13,206	$ 14,542	$ 14,514
Non-Employer Contributing Entity[1]	24,000	24,000	16,501	29,831	31,088
Total Statutorily Required Contribution	$ 24,000	$ 24,000	$ 29,707	$ 44,373	$ 45,602
Covered-Member Payroll	N/A	N/A	$ 167,667	$ 166,870	$ 174,979
Required Employer Contributions as a Percentage of Covered-Member Payroll	N/A	N/A	7.9%	8.7%	8.3%

(1) Statutorily required contributions equal actual required contributions.
(2) MERF merged with GERF in reporting fiscal year 2015.
(3) TRF 2015: The required contribution rate for employers increased from 7.0% - 11.0% to 7.5% - 11.5%.

Note: Data begins in fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” in fiscal year 2015.

Required Supplementary Information
Non-Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions
(In Thousands)

	DTRF[2]		SPTRF		
	2014	2015	2014	2015[3]	2016[4]
Statutorily Required Contribution as an:					
Employer[1]	$ 55	$ 56	$ 109	$ 86	$ 64
Non-Employer Contributing Entity[1]	6,555	6,346	10,665	9,827	10,665
Total Statutorily Required Contribution	$ 6,610	$ 6,402	$ 10,774	$ 9,913	$ 10,729
Covered-Member Payroll	$ 729	760	$ 1,749	$ 628	$ 612
Required Employer Contributions as a Percentage of Covered-Member Payroll	7.5%	7.4%	6.2%	13.7%	10.5%

(1) Statutorily required contributions equal actual required contributions.
(2) DTRF merged with TRF in reporting fiscal year 2015.
(3) SPTRF 2015: The required contribution rate for employers increased from 5.25% - 8.75% to 5.50% - 9.00%.
(4) SPTRF 2016: The required contribution rate for employers increased to 6.00% - 9.50%.

Note: Data begins in fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” in fiscal year 2015.

Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability
(In Thousands)

	SERF		CERF		GERF	
	2015	2016[1]	2015	2016[2]	2015	2016[3]
Primary Government’s Proportion of the Net Pension Liability as an:						
Employer	73.38%	73.93%	99.80%	99.86%	0.70%	0.62%
Non-Employer Contributing Entity	-	-	-	-	-	3.56%
Total Primary Government’s Proportion of the Net Pension Liability	73.38%	73.93%	99.80%	99.86%	0.70%	4.18%
Primary Government’s Proportionate Share of the Net Pension Liability as an:						
Employer	$ 1,189,902	$ 1,138,125	$ 475,387	$ 653,352	$ 33,103	$ 32,022
Non-Employer Contributing Entity	-	-	-	-	-	184,478
Total Primary Government’s Proportionate Share of the Net Pension Liability	$ 1,189,902	$ 1,138,125	$ 475,387	$ 653,352	$ 33,103	$ 216,500
Primary Government’s Covered-Member Payroll – Measurement Period	$ 1,923,040	$ 2,006,862	$ 218,860	$ 231,126	$ 37,715	$ 34,289
Primary Government’s Employers’ Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll	61.9%	56.7%	217.2%	282.7%	87.8%	93.4%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.6%	88.3%	64.8%	58.1%	78.7%	78.2%

(1) SERF 2016: Benefit increase of 2.5% was projected to start in 2044 instead of 2016.
(2) CERF 2016: Benefit increase was projected to remain at 2.0% instead of increasing to 2.5% in 2016.
(3) GERF 2016: Benefit increase of 2.5% was projected to start in 2036 instead of 2031.

Note: The state implemented GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” in fiscal year 2015 using the most recent actuarial report available of June 30, 2014.

Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability
(In Thousands)

	MERF[1]	TRF		DTRF[3]	SPTRF	
	2015	2015	2016[2]	2015	2015	2016[4]
Primary Government's Proportion of the Net Pension Liability as an:						
Employer	-	4.13%	3.88%	0.55%	0.31%	0.24%
Non-Employer Contributing Entity	43.35%	5.17%	9.74%	64.98%	30.34%	29.52%
Total Primary Government's Proportion of the Net Pension Liability	43.35%	9.30%	13.62%	65.53%	30.65%	29.76%
Primary Government's Proportionate Share of the Net Pension Liability as an:						
Employer	$ -	$ 190,460	$ 239,701	$ 1,401	$ 1,666	$ 1,385
Non-Employer Contributing Entity	95,900	237,958	602,738	166,948	162,576	171,776
Total Primary Government's Proportionate Share of the Net Pension Liability	$ 95,900	$ 428,418	$ 842,439	$ 168,349	$ 164,242	$ 173,161
Primary Government's Covered-Member Payroll – Measurement Period	N/A	$ 167,667	$ 166,870	$ 729	$ 1,749	$ 628
Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll	N/A	113.6%	143.6%	192.2%	95.3%	220.5%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.9%	81.5%	76.8%	46.8%	66.1%	63.6%

(1) MERF merged with GERF in reporting fiscal year 2015.
(2) TRF 2016: The discount rate changed from 8.25% to 8.00%.
(3) DTRF merged with TRF in reporting fiscal year 2015.
(4) SPTRF 2016: Benefit increase if the plan is at least 90% funded was up to 2.5% instead of up to 5.0%.

Note: The state implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015 using the most recent actuarial report available of June 30, 2014.

Required Supplementary Information
Primary Government Administered Single-Employer Plan
Judges Retirement Fund (JRF)
Schedule of Contributions
(In Thousands)

	2007	2008	2009	2010	2011	2012	2013	2014[2]	2015	2016
Statutorily Required Contribution[1]	$ 7,572	$ 7,935	$ 8,219	$ 8,283	$ 8,297	$ 7,922	$ 8,177	$ 9,426	$ 9,776	$ 10,219
Covered-Member Payroll	$ 36,195	$ 38,296	$ 39,444	$ 39,291	$ 40,473	$ 38,644	$ 39,888	$ 41,893	$ 43,449	$ 45,416
Contributions as a Percentage of Covered-Member Payroll	20.9%	20.7%	20.8%	21.1%	20.5%	20.5%	20.5%	22.5%	22.5%	22.5%

(1) Statutorily required contributions equal actual required contributions.
(2) 2014: The required employer contribution rate changed from 20.5% to 22.5%

Required Supplementary Information
Primary Government Administered Single-Employer Plan
Legislators Retirement Fund (LRF)
Schedule of Contributions
(In Thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Statutorily Required Contribution[1]	$ 1,772	$ 2,217	$ 1,269	$ 1,975	$ 2,805	$ 3,935	$ 3,399	$ 3,436	$ 3,216	$ 5,087
Covered-Member Payroll	$ 2,380	$ 1,993	$ 1,963	$ 1,877	$ 1,774	$ 1,378	$ 1,233	$ 1,122	$ 1,700	$ 993
Contributions as a Percentage of Covered-Member Payroll	74.5%	111.2%	64.6%	105.2%	158.1%	285.6%	275.7%	306.2%	189.2%	512.3%

(1) Statutorily required contributions equal actual required contributions. Employer contributions are on a pay-as-you-go basis.

Required Supplementary Information
Primary Government Administered Single-Employer Plan
State Patrol Retirement Fund (SPRF)
Schedule of Contributions
(In Thousands)

	2007	2008[2]	2009[3]	2010[4]	2011	2012[5]	2013	2014	2015[6]	2016
Statutorily Required Contribution[1]	$ 7,461	$ 8,279	$ 9,178	$ 10,104	$ 9,873	$ 11,620	$ 11,482	$ 12,894	$ 13,763	$ 13,938
Covered-Member Payroll	$ 61,498	$ 60,029	$ 61,511	$ 63,250	$ 63,250	$ 62,524	$ 62,121	$ 63,952	$ 68,463	$ 64,529
Contributions as a Percentage of Covered-Member Payroll	12.1%	13.8%	14.9%	16.0%	15.6%	18.6%	18.5%	20.2%	20.1%	21.6%

(1) Statutorily required contributions equal actual required contributions.
(2) 2008: The required employer contribution rate changed from 12.6% to 13.6%
(3) 2009: The required employer contribution rate changed to 14.6%
(4) 2010: The required employer contribution rate changed to 15.6%
(5) 2012: The required employer contribution rate changed to 18.6%
(6) 2015: The required employer contribution rate changed to 20.1%

Required Supplementary Information
Primary Government Administered Single-Employer Plans
Schedule of Changes in the Net Pension Liability
and Related Ratios
(In Thousands)

	JRF		LRF		SPRF	
	2015	2016[1]	2015	2016[2]	2015	2016[3]
Total Pension Liability						
Service Cost	$ 12,075	$ 12,251	$ 398	$ 428	$ 14,514	$ 16,144
Interest on the Total Pension Liability	20,535	21,773	6,177	6,113	60,183	63,753
Difference Between Expected and Actual Experience of the Total Pension Liability	5,080	(4,366)	(237)	(7,303)	(5,771)	(12,855)
Changes in Assumptions	(8,416)	21,696	11,201	7,057	30,058	-
Benefit Payments, Including Refunds of Member Contributions	(20,802)	(21,893)	(8,486)	(8,441)	(53,722)	(55,480)
Net Change in Total Pension Liability	$ 8,472	$ 29,461	$ 9,053	$ (2,146)	$ 45,262	$ 11,562
Total Pension Liability – Beginning	$ 373,039	$ 381,511	$ 137,446	$ 146,499	$ 781,411	$ 826,673
Total Pension Liability - Ending	$ 381,511	$ 410,972	$ 146,499	$ 144,353	$ 826,673	$ 838,235
Fiduciary Net Position						
Contributions – Employer	$ 9,426	$ 9,776	$ 3,436	$ 3,216	$ 12,894	$ 14,763
Contributions – Member	3,578	3,629	101	153	7,930	9,174
Net Investment Income	28,011	7,572	1,750	281	107,187	28,903
Benefit Payments, Including Refunds of Member Contributions	(20,802)	(21,893)	(8,486)	(8,441)	(53,722)	(55,480)
Pension Plan Administrative Expenses	(55)	(60)	(36)	(37)	(150)	(170)
Net Change in Plan Fiduciary Net Position	$ 20,158	$ (976)	$ (3,235)	$ (4,828)	$ 74,139	$ (2,810)
Plan Fiduciary Net Position – Beginning as Restated	$ 155,398	$ 175,556	$ 11,493	$ 8,258	$ 593,201	$ 667,340
Plan Fiduciary Net Position – Ending	$ 175,556	$ 174,580	$ 8,258	$ 3,430	$ 667,340	$ 664,530
Net Pension Liability	$ 205,955	$ 236,392	$ 138,241	$ 140,923	$ 159,333	$ 173,705
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	46.0%	42.5%	5.6%	2.4%	80.7%	79.3%
Covered-Member Payroll – measurement period	$ 41,893	$ 43,449	$ 1,122	$ 1,700	$ 63,952	$ 68,463
Net Pension Liability as a Percentage of Covered-Member Payroll	491.6%	544.1%	12,320.9%	8,289.6%	249.1%	253.7%

(1) JRF 2016: The discount rate changed from 5.78% to 5.25%.
(2) LRF 2016: The discount rate changed from 4.29% to 3.80%. Benefit increase of 2.5% was projected to start in 2044 instead of 2015.
(3) SPRF 2016: Benefit increase of 1.0% was projected to start in 2031 instead of 2018, 1.5% through 2052 instead of 2045 and 2.5% thereafter.

Note: The state implemented GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” in fiscal year 2015 using the most recent actuarial report available of June 30, 2014.

Actuarial Measures of Other Postemployment Benefits Funding Progress

The state of Minnesota offers other postemployment benefits to state employees and their dependents through a single-employer defined benefit health care plan.

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date		7/1/2014 [1] 7/1/2012 7/1/2010
Actuarial Value of Plan Assets	7/1/2014 7/1/2012 7/1/2010	$ - $ - $ -
Actuarial Accrued Liability	7/1/2014 7/1/2012 7/1/2010	$ 666,638 $ 651,890 $ 799,321
Total Unfunded Actuarial Liability	7/1/2014 7/1/2012 7/1/2010	$ 666,638 $ 651,890 $ 799,321
Funded Ratio[2]	7/1/2014 7/1/2012 7/1/2010	0% 0% 0%
Annual Covered Payroll	7/1/2014 7/1/2012 7/1/2010	$ 3,243,316 $ 2,819,463 $ 3,027,241
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	7/1/2014 7/1/2012 7/1/2010	21% 23% 26%

(1) The July 1, 2014, Actuarial Valuation Report is the most recently issued report available. The Actuarial Valuation Report is prepared every two years.

(2) Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

The Public Employees Insurance Program's medical claims is a self-funded program. The following table illustrates how the fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the past ten years (in thousands).

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Required Contribution and Investment Revenue:										
Earned	$ 13,219	$ 13,439	$ 12,286	$ 25,031	$ 34,161	$ 45,413	$ 49,244	$ 90,110	$ 96,008	$109,484
Ceded	(1,347)	(1,298)	(1,218)	(2,684)	(2,660)	(3,502)	(4,582)	(8,372)	(4,607)	-
Net Earned	$ 11,872	$ 12,141	$ 11,068	$ 22,347	$ 31,501	$ 41,911	$ 44,662	$ 81,738	$ 91,401	$109,484
2. Unallocated Expenses:	$ 1,547	$ 1,505	$ 1,534	$ 2,037	$ 2,411	$ 3,018	$ 3,612	$ 6,390	$ 7,435	$ 7,846
3. Estimated Claims and Expenses End of Policy Year:										
Incurred	$ 11,206	$ 10,748	$ 9,473	$ 19,350	$ 24,134	$ 38,173	$ 41,959	$ 73,795	$ 86,276	$ 97,089
Ceded	(1,782)	(380)	(667)	(562)	(1,491)	(2,149)	(4,909)	(5,767)	(7,571)	-
Net Incurred	$ 9,424	$ 10,368	$ 8,806	$ 18,788	$ 22,643	$ 36,024	$ 37,050	$ 68,028	$ 78,705	$ 97,089
4. Net Paid (Cumulative) as of:										
End of Policy Year	$ 8,226	$ 9,403	$ 7,921	$ 16,848	$ 20,720	$ 32,176	$ 33,836	$ 60,813	$ 70,741	$ 87,378
One Year Later	9,352	10,415	8,482	18,828	23,219	35,718	37,353	68,176	79,461	
Two Years Later	9,358	10,413	8,454	18,826	23,200	35,946	37,608	68,256		
Three Years Later	9,358	10,413	8,454	18,826	23,303	35,986	37,629			
Four Years Later	9,358	10,413	8,454	18,826	23,303	35,986				
Five Years Later	9,358	10,413	8,454	18,826	23,303					
Six Years Later	9,358	10,413	8,454	18,826						
Seven Years Later	9,358	10,413	8,454							
Eight Years Later	9,358	10,413								
Nine Years Later	9,358									
5. Reestimated Ceded Claims and Expenses:	$ 1,782	$ 380	$ 667	$ 562	$ 1,491	$ 2,149	$ 4,909	$ 5,767	$ 7,515	$ -
6. Reestimated Net Incurred Claims and Expenses:										
End of Policy Year	$ 9,424	$ 10,368	$ 8,806	$ 18,788	$ 22,643	$ 36,024	$ 37,050	$ 68,028	$ 78,705	$ 97,089
One Year Later	9,362	10,425	8,502	18,848	23,249	36,006	37,673	68,588	80,027	
Two Years Later	9,358	10,413	8,454	18,826	23,304	35,946	37,608	68,408		
Three Years Later	9,358	10,413	8,454	18,826	23,303	35,986	37,629			
Four Years Later	9,358	10,413	8,454	18,826	23,303	35,986				
Five Years Later	9,358	10,413	8,454	18,826	23,303					
Six Years Later	9,358	10,413	8,454	18,826						
Seven Years Later	9,358	10,413	8,454							
Eight Years Later	9,358	10,413								
Nine Years Later	9,358									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year:	$ (66)	$ 45	$ (352)	$ 38	$ 660	$ (38)	$ 579	$ 380	$ 1,322	$ -

The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.

3. This section shows the fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.

6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)

7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally estimated. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

APPENDIX G

CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE UNDERTAKING

The Commissioner's Order authorizing the issuance of the Bonds will contain provisions enabling participating underwriters in the primary offering of the Bonds to comply with the requirements of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15C2-12, paragraph (b)(5), in substantially the following form:

3.01 **Official Statement.** The Official Statement dated September 27, 2017, relating to the Bonds (the "Official Statement"), is a final official statement within the meaning of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, as in effect and interpreted from time to time ("Rule 15c2-12"). The respective purchasers of the Bonds designated in Section 4 hereof (collectively, the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Bonds of a series are reoffered.

3.02 **Continuing Disclosure.**

(a) General Undertaking. On behalf of the State, the Commissioner covenants and agrees with the Registered Owners (as hereinafter defined) from time to time of the Bonds to comply with Rule 15c2-12, paragraph (b)(5); and, for this purpose, to provide to the Municipal Securities Rulemaking Board ("MSRB"), annual financial information of the type included in the Official Statement and notice of the occurrence of certain specified events which materially affect the terms, payment, security, rating or tax status of the Bonds, as set forth in this Section. The State is the only "obligated person" in respect of the Bonds within the meaning of Rule 15c2-12. As used in this Section 3.02, "Registered Owner" means, in respect of a Bond of a series, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, "Beneficial Owner" means, in respect of a Bond of a series, any person or entity which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The Commissioner will provide, in the manner set forth in paragraph (c) hereof, either directly or indirectly through an agent designated by the Commissioner, the following information (the "Disclosure Information") at the following times:

(i) On or before December 31 of each year, commencing in 2017 (each a "Reporting Date"):

(A) The Comprehensive Annual Financial Report of the State for the fiscal year ending on the previous June 30, prepared by the State's Department of Management and Budget in accordance with generally accepted accounting principles for governmental entities as prescribed by the Government Accounting Standards Board as in effect from time to time or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles, noting the variances therefrom and the effect thereof, together with an independent auditor's report prepared with respect thereto by the Office of the Legislative Auditor of the State or other auditing authority designated by State law; provided, however, that if audited financial statements are not available by such date, the financial statements to be delivered shall be unaudited, but the State undertakes and agrees to provide, within 10 days after the receipt thereof by the State, the audited general purpose financial statements of the State and the related audit report described above; and

(B) To the extent not included in the financial statements referred to in clause (A) hereof, the information for such fiscal year of the type contained in the Official Statement, which information may be unaudited.

Any or all of the information may be incorporated by reference from other documents, including official statements, which have been filed with the Securities and Exchange Commission (the "SEC") or have been made available to the public on the MSRB's Electronic Municipal Market Access ("EMMA") facility for municipal securities disclosure. The Commissioner shall clearly identify in the information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the State have materially changed or been discontinued, such Disclosure Information need no longer be provided if the State includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other State operations in respect of which data is not included in the Disclosure Information and the State determines that certain specified data regarding such replacement operations would be "Material" (as defined in subparagraph (ii) of this paragraph (b)), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or this Section 3.02 is amended as permitted by this subparagraph (i) or paragraph (d), then the State shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(ii) In a timely manner, not in excess of 10 business days after the occurrence of an event, notice of the occurrence of any of the following events:

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults, if material;

(C) Unscheduled draws on debt service reserves reflecting financial difficulties;

(D) Unscheduled draws on credit enhancements reflecting financial difficulties;

(E) Substitution of credit or liquidity providers, or their failure to perform;

(F) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(G) Modifications to rights of security holders, if material;

(H) Bond calls, if material, and tender offers;

(I) Defeasances;

(J) Release, substitution or sale of property securing repayment of the securities, if material;

(K) Rating changes;

(L) Bankruptcy, insolvency, receivership or similar event of the State;

(M) The consummation of a merger, consolidation or acquisition involving the State or the sale of all or substantially all of the assets of the State or other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(N) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

As used herein, an event is "material" if it would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of the occurrence of the event.

(iii) In a timely manner, notice of the occurrence of any of the following events or conditions:

(A) the failure of the State to provide the information required under subparagraph (i) of this paragraph (b) at the time specified thereunder;

(B) the amendment or supplementing of this Section 3.02 pursuant to paragraph (d), together with a copy of such amendment or supplement and any explanation provided by the State under subparagraph (ii) of paragraph (d);

(C) the termination of the obligations of the State under this Section 3.02 pursuant to paragraph (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the information required under subparagraph (i) of this paragraph (b) are prepared; and

(E) any change in the fiscal year of the State.

(c) Manner of Disclosure.

(i) The Commissioner agrees to make available to the MSRB, in an electronic format as prescribed by the MSRB from time to time, the information described in paragraph (b).

(ii) The Commissioner further agrees to make available by electronic transmission, overnight delivery, mail or other means, as appropriate, the information described in paragraph (b) to any rating agency then maintaining a rating of the Bonds and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of transmission under subparagraph (i) of this paragraph (c), or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(iii) All documents provided to the MSRB pursuant to this paragraph (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(iv) The State shall determine in the manner it deems appropriate whether there has occurred a change in the MSRB's email address or filing procedures and requirement under the MSRB's EMMA facility each time the State is required to file information with the MSRB.

(d) Term; Amendments; Interpretation.

(i) The covenants of the State in this Section 3.02 shall remain in effect with respect to a series of Bonds so long as any Bonds of such series are outstanding. Notwithstanding the preceding sentence, however, the obligations of the State under this Section 3.02 shall terminate and be without further effect as of any date on which the State delivers to the Registrar an opinion of bond counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the State to comply with the requirements of this Section 3.02 will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule 15c2-12 or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(ii) This Section 3.02 (and the form and requirements of the Disclosure Information) may be amended or supplemented by the State from time to time, without notice to (except as provided in subparagraph (ii) of paragraph (c)) or the consent of the Registered Owners of any Bonds, by an order of the Commissioner accompanied by an opinion of bond counsel, who may rely on certificates of the State and others and the opinion may be subject to customary qualifications, to the effect that: (A) such amendment or supplement (1) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the type of operations conducted by the State, or (2) is required by, or better complies with, the provisions of paragraph (b)(5) of Rule 15c2-12; (B) this Section 3.02 as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of Rule 15c2-12 at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (A)(1) and assuming that Rule 15c2-12 as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (C) such amendment or supplement does not materially impair the interests of the Registered Owners under Rule 15c2-12.

(iii) If the Disclosure Information is so amended, the Commissioner agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(iv) This Section 3.02 is entered into to comply with the continuing disclosure provisions of Rule 15c2-12 and should be construed so as to satisfy the requirements of Rule 15c2-12.

(e) Failure to Comply; Remedies. If the State fails to comply with any provision of this Section 3.02, any person aggrieved thereby, including the Registered Owner of any outstanding Bond of a series, may take whatever action at law or in equity as may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this Section 3.02. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Section 3.02 constitute a default with respect to the Bonds or under any other provision of this Order.

(f) Further Limitation of Liability of State. If and to the extent the limitations of liability contained in subparagraph (e) are not effective, anything contained in this Section 3.02 to the contrary

notwithstanding, in making the agreements, provisions and covenants set forth in this Section 3.02, the State has not obligated itself to pay damages resulting from any violation thereof. None of the agreements or obligations of the State contained herein shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provisions whatsoever or constitute a pledge of the full faith and credit or taxing powers of the State, a waiver of the State's sovereign immunity, or a waiver of any of the limitations contained in Minnesota Statutes, Section 3.736, except as provided under the laws of the State.

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APPENDIX H

FORMS OF LEGAL OPINION

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October 11, 2017

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $312,295,000 General Obligation State Various Purpose Bonds, Series 2017A
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $312,295,000 General Obligation State Various Purpose Bonds, Series 2017A, dated October 11, 2017 (the "Series 2017A Bonds"). The Series 2017A Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2017A Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

2. Interest on the Series 2017A Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

The opinions expressed in paragraph 2 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2017A Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2017A Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2017A Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2017A Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2017A Bonds. No provision has been made for an increase in the interest payable on the Series 2017A Bonds in the event that the interest payable thereon

becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2017A Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

October 11, 2017

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $114,000,000 General Obligation State Trunk Highway Bonds, Series 2017B
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $114,000,000 General Obligation State Trunk Highway Bonds, Series 2017B, dated October 11, 2017 (the "Series 2017B Bonds"). The Series 2017B Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2017B Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State.

2. The principal of and interest on the Series 2017B Bonds are payable from revenues of the State Trunk Highway Fund; but, if necessary for the payment thereof, the full faith and credit of the State are pledged, and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

3. Interest on the Series 2017B Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

The opinions expressed in paragraph 3 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2017B Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2017B Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2017B Bonds relating to certain continuing

requirements of the Code, may result in inclusion of interest to be paid on the Series 2017B Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2017B Bonds. No provision has been made for an increase in the interest payable on the Series 2017B Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2017B Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

October 11, 2017

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $27,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2017C
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $27,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2017C, dated October 11, 2017 (the "Series 2017C Bonds"). The Series 2017C Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue.

From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that the Series 2017C Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

The interest on the Series 2017C Bonds is includable in gross income for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. We express no other opinion regarding federal, state or other tax consequences to holders of the Series 2017C Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

October 11, 2017

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $323,770,000 General Obligation State Various Purpose Refunding Bonds, Series 2017D
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $323,770,000 General Obligation State Various Purpose Refunding Bonds, Series 2017D, dated October 11, 2017 (the "Series 2017D Bonds"). The Series 2017D Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2017D Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

2. Interest on the Series 2017D Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

The opinions expressed in paragraph 2 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2017D Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2017D Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2017D Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2017D Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2017D Bonds. No provision has been made for an increase in the interest payable on the Series 2017D Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this

opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2017D Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

October 11, 2017

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $81,110,000 General Obligation State Trunk Highway Refunding Bonds, Series 2017E
State of Minnesota

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in the issuance of $81,110,000 General Obligation State Trunk Highway Refunding Bonds, Series 2017E, dated October 11, 2017 (the "Series 2017E Bonds"). The Series 2017E Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2017E Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State.

2. The principal of and interest on the Series 2017E Bonds are payable from revenues of the State Trunk Highway Fund; but, if necessary for the payment thereof, the full faith and credit of the State are pledged, and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

3. Interest on the Series 2017E Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax.

The opinions expressed in paragraph 3 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2017E Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2017E Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2017E Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2017E Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2017E Bonds. No provision has been made for an increase in the interest payable on the Series 2017E Bonds in the event that the interest payable thereon

becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2017E Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

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MINNESOTA HOUSING FINANCE AGENCY • STATE APPROPRIATION BONDS (HOUSING INFRASTRUCTURE), 2017 SERIES A (NON-AMT)

MINNESOTA HOUSING

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