# Debt Capacity Forecast
# February 2003

Minnesota Statute 16A.105 requires the Commissioner of Finance in February and November of each year to prepare a debt capacity forecast to be delivered to the governor and the legislature.

**Statement of Indebtedness**

The state of Minnesota on February 1, 2003 had $3,045,685,000 of general obligation bonds outstanding.

The state has no general obligation notes outstanding.

The Laws of Minnesota 1991, Chapter 350, authorized the state to issue revenue bonds secured by the state's full faith and credit to finance the construction and equipping of an engine repair facility in Hibbing and an aircraft maintenance facility in Duluth. The state issued $47,670,000 of these revenue bonds in May 1995 of which $39,485,000 remains outstanding. The state's full faith and credit secures all of the bonds.

**Debt Service Costs**

The debt service costs for the state's general obligation bonds are shown below. The amounts shown are the general fund costs by fiscal year and include the amount of debt service paid from the cigarette tax and the sports and health club tax. Future capital budgets are forecast at $530 million in even numbered legislative sessions and $87 million in odd numbered years.

| Year | Actual | Year | Forecast |
|---|---|---|---|
| 1999 | 291,625,000 | 2004 | 334,842,000 |
| 2000 | 259,830,000 | 2005 | 362,982,000 |
| 2001 | 309,641,000 | 2006 | 372,999,000 |
| 2002 | 289,994,000 | 2007 | 391,617,000 |
| 2003 | 297,635,000 | 2008 | 379,465,000 |
| | | 2009 | 412,915,000 |

**Debt Authorized and Unissued**

The state has authorized and unissued general obligation bonds totaling $1,077,452,400. This amount includes $353,923,000 of capital projects in the Laws of 2002, Chapter 393 that were vetoed by the Governor.

**Future Debt Capacity**

Future general obligation debt capacity is forecast through the 2008-09 biennium. To make this forecast, many variables must be forecasted.

The state's debt management policy has a guideline that limits the appropriation for debt service from the general fund to 3% of general fund revenues. The Department of Finance revenue forecast is used for forecasted revenues in the next two biennia and is increased in future years based upon projected economic growth factors. The 3% limit under the guideline is then used to estimate the maximum amount of general fund revenues available for debt service.

Other variables that need to be forecast are interest rates on bonds sold, interest rates for investment earnings on balances in the debt service fund and the building fund, various receipts coming into the debt service fund, cash flow on future capital projects and the dollar amount of bonds to be sold and when they will be sold.

The forecast of future debt capacity also assumes that major capital budgets will be approved in the even numbered legislative sessions and small emergency capital budgets will be approved in the odd numbered years. The large capital budgets are passed by the legislature in level amounts.

Based upon all these assumptions, the maximum debt capacity for capital budgets in even numbered years is $970,000,000 each even numbered year through 2008 and is $87,000,000 in each odd numbered year through 2009.

STATE OF MINNESOTA

# Office Memorandum

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| **Department:** | of Finance |
| **Date:** | February 27, 2003 |
| **To:** | Legislative Reference Library<br>Chief Clerk of the House of Representatives<br>Secretary of the Senate |
| **From:** | Dan McElroy<br>Commissioner |
| **Phone:** | 651-297-7881 |
| **Subject:** | Report to Legislature - Debt Capacity Report |

Minnesota Statute 16A.105 requires the Commissioner of Finance in February and November of each year to prepare a debt capacity report to be delivered to the governor and legislature.

Attached is the February 2003 debt capacity report.

Attachment

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| cc: | Senator Hottinger | Representative Sviggum |
| | Senator Day | Representative Entenza |
| | Senator Cohen | Representative Knoblach |
| | Senator Langseth | Representative Krinkie |