

Debt Financing in Minnesota

General Obligation Bonds
Trunk Highway Bonds



General Obligation Bonds

All state G.O. bonds have certain common requirements. They must be for a public purpose, authorized in the constitution, specified in law, and mature in not more than 20 years. The principal purpose for which state G.O. bonds are issued is to acquire and better public land and buildings and to make other public capital improvements.

A capital project, in general, is to acquire or improve fixed assets, such as land or buildings. The fixed asset must be long-lived; bond counsel has suggested that the useful life be at least ten years. The improvements must be substantial, extend the useful life or substantially increase the value of the fixed asset, and not be predictable or recurring (as repairs would be).

Bonds issued under the capital improvements provision may only be for publicly owned projects, whether state or local.

A law to authorize the issuance of state G.O. bonds for capital improvements must be enacted with at least a three-fifths vote of the House and the Senate.

Bonds are a form of debt. While often conceptualized as *funding* for projects, bonds are not really a revenue source. Since bonds must be repaid with interest, they reflect debt financing rather than generating additional permanent revenue.

Bonds enable additional projects to be undertaken sooner and reduce available funds in the future. One of the primary effects of bonding is to accelerate when some projects are initiated (but not how many total projects can generally be done over time). While bonds allow financing additional projects sooner, debt service payments in the ensuing years reduce the amount of funds that would otherwise be available at that time.

General obligation (G.O.) bonds are available for a variety of transportation capital such as local roads and bridges, ports, bus facilities, and light rail projects. The bond proceeds cannot be used for projects on the trunk highway system.

Local Road and Bridge Bonding

State statutes establish a subset of G.O. bonds. They are known as “local road and bridge bonds” although there is not a constitutional distinction from G.O. bonds. The difference is instead statutory (mainly relating to provisions on distinct accounting funds of the state). Local road and bridge bonds are backed in the same manner as other G.O. bonds; debt service is paid from the General Fund.

Bond proceeds are mainly used for two state programs: the Local Road Improvement program and the Local Bridge Rehabilitation and Replacement program. Both are administered by the Minnesota Department of Transportation (MnDOT) following a combination of statutory provisions, administrative rules, and agency practices.

Funding Summary Local Bridge program

Funds available for the program vary with each legislative appropriation. Funds shown in the table under general LBRP do not include engineering costs.

Year	General LBRP - Appropriations		General LBRP – Motor Vehicle Lease Sales Tax ⁺		Earmarked LBRP	
	LBRP Funds (millions)	No. of Projects Funded	LBRP Funds (millions)	No. Projects Funded	LBRP Funds (millions)	No. of Projects Funded
2013	\$0.0	0			-	-
2014	\$21.3	48			\$11.8	1
2015	\$7.4	23			-	-
2016	\$0.0	0			-	-
2017*	\$16.5	79			\$32.7	2
2018*	\$5.0	26	\$12.6	29	-	-
2019	\$0.0	0	\$12.7	43	-	-
2020*	\$30.0	109	\$11.2	36	\$56.2	3
2021*	\$14.0	48	\$10.2	15	-	-
2022	\$0.0	0	\$8.9	30	-	-
2023*	\$85.0	119	\$7.4	13	\$39.25	6

* LBRP account(s) still open so number of non-earmark projects funded is subject to change.

+ 2017 amendment to 297A.815 dedicated 13 percent of MVLST to local bridges

Funding Summary Local Road Improvement Program

Funds available for the program vary with each legislative bond and/or general fund appropriation. Funds shown in the table under competitive LRIP do not include engineering costs.

Solicitation Year	Competitive LRIP		Earmarked LRIP	
	LRIP Funds (millions)	No. of Projects Funded	LRIP Funds (millions)	No. of Projects Funded
2014	\$54.4	43	-	-
2015	\$4.3	9	\$9.3	3
2016	\$0.0	n/a	-	-
2017	\$25.3	45	\$90.6	11
2018	\$35.0	53	\$75.4	16
2019	\$0.0	n/a	-	-
2020*	\$75.0	75	\$109.9	23
2021*	\$5.5	8	\$30.9	10
2022	\$0.0	n/a	-	-
2023*	\$102.967	86	\$235.56	38

*Competitive LRIP account is still open, so number of projects funded is subject to change

Programs that have been funded with GO bonds in the past include:

- Local Bridge Replacement Program
- Local Road Improvement Program
- Local Road Wetland Replacement Program
- Bus Rapid Transit/Busway Capital Improvements
- Greater MN Transit Capital
- Port Development Assistance Program
- Minnesota Rail Service Improvement Program
- Highway Railroad Grade Crossing Devices
- Safe Routes to School
- Active Transportation
- Airport improvements

Trunk Highway Bonds

Trunk highway bonds are a specialized and constitutionally distinct form of bonding. They are authorized through a combination of provisions in the Minnesota Constitution. The key characteristic of trunk highway bonds is that bond proceeds are constitutionally limited solely to capital projects that are part of, or functionally related to, the trunk highway system. Generally, other forms of bonding must be used to finance non-trunk highway projects or project components (e.g., on local roads).

Passage of legislation authorizing trunk highway bonds requires a simple majority in each legislative body.

Bond proceeds are normally administered by MnDOT. MnDOT has jurisdiction over the state's trunk highway system. The department uses trunk highway bonds as one of the fiscal tools for trunk highway construction projects that maintain and improve the system.

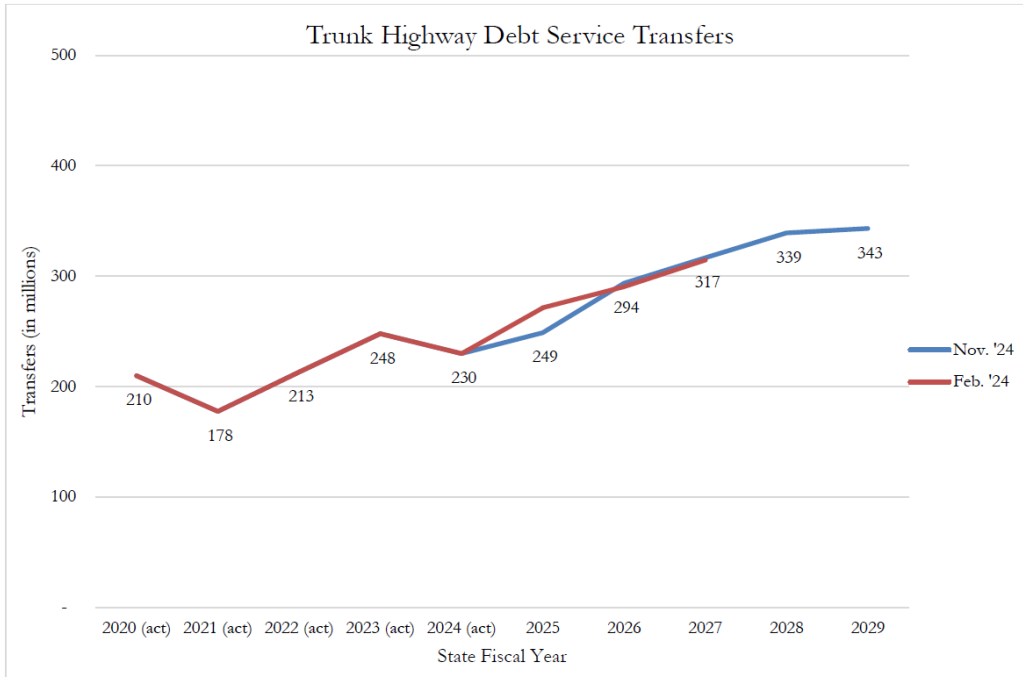
Debt service is paid from the Trunk Highway Fund. The Trunk Highway Fund is a constitutionally established state accounting fund that largely consists of revenue from dedicated transportation-related taxes (that is, portions of the motor fuels tax, registration tax, and motor vehicle sales tax) and federal aid. Payment of principal and interest on trunk highway bonds have the first claim on Trunk Highway Fund revenues, and the debt is backed by a pledge of state property taxes.

MnDOT maintains a debt management policy specifically for trunk highway bonding. Following a directive in state statute, MnDOT has established a policy on trunk highway bonding. It includes a maximum recommended level of debt based on state revenue to the trunk highway system. At this time, the level is 20%.

Trunk highway bonds are permitted for capital projects that are strictly on the trunk highway system, but the matter can become less clear in various other circumstances. Bond counsel opinions and executive branch guidance lay out some of the factors used to evaluate whether a project, or project components, can be paid with trunk highway bond proceeds. In determining whether project activity qualifies for trunk highway bonding, some of the relevant considerations include:

- a predominant purpose that supports the trunk highway system, although this does not necessarily exclude a degree of work on local roads or transit-related facilities depending on specific circumstances;
- whether the expenditures are capital in nature (but potentially including labor costs for those working solely on the project as well as capitalized equipment);
- the nature of the work in construction, maintenance (facility upkeep or preservation), or improvement (permanent additions that increase value);
- physical location of the capital facilities, such as being within trunk highway right-of-way;
- the expected life of the project;
- ownership of the facilities, which for the most part will be owned by the state and managed by MnDOT; and
- net benefits to the trunk highway system, such as through safety, mobility, or operational improvements.

Depending on the circumstances, different elements of a project can sometimes be funded through a combination of trunk highway bonds and other state bonding. For instance, 2018 capital legislation included both trunk highway bonds and state transportation bonds for an interstate highway interchange project that included improvements to local roads.



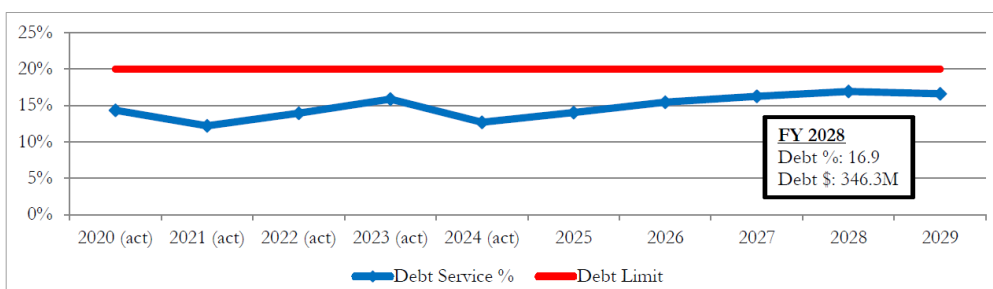
The Trunk Highway Fund is governed by four financial policies: Debt Management, Fund Balance, Cash Balance, and Advance Construction (policy link included in the appendices index). **The Debt Management Policy states that debt service should not exceed 20 percent of annual state revenues to the Trunk Highway Fund.**

Debt Management Policy
(\$ in millions)

Year	Total Debt Service ⁽¹⁾	Estimated Current %	Variance from 20% Policy Limit ⁽²⁾
2020 (act)	210,224	14.3%	83,158
2021 (act)	181,771	12.2%	116,181
2022 (act)	217,987	13.9%	94,986
2023 (act)	251,994	15.9%	65,680
2024 (act)	234,044	12.7%	135,060
2025	255,917	14.0%	109,241
2026	300,675	15.4%	88,743
2027	323,775	16.3%	74,686
2028	346,298	16.9%	62,996
2029	350,417	16.6%	71,686

Includes bond debt transfers, transportation revolving loans, and local government advances.

(2) Represents amount of additional debt service to reach 20 percent limit – a general guideline is to multiply this amount by 10 for an estimate of the additional bond capacity e.g., \$71.7M x 10 = \$717M in additional bond capacity.



Minnesota Management and Budget Guidelines

Guideline #1: Total tax-supported principal outstanding shall be 3.25% or less of total state personal income

- Consistent with rating agency approach and measure is comparable with other states
- Modernizes calculation to include tax-supported debt instruments that used to be outside of prior guidelines (trunk highway bonds, general fund appropriations for real estate leases, and standing general fund appropriations for debt issued by others)
- Relatively stable measure that is less sensitive to interest rate or revenue changes
- Sensitive to large one-time issuances and able to show long-term trends
- Maintains Minnesota's position as having a low to moderate debt burden

The state is currently within Guideline #1.

Tax-supported principal sold	\$8.397 billion
FY 2025 state personal income estimate – SPGMI forecast	\$444.485 billion
As a percent of state personal income, not to exceed 3.25%	1.89%
Estimate of maximum amount of tax-supported debt that could be sold today before exceeding Guideline #1*	\$6.048 billion

*Bonds authorized are typically not sold all at once; they are sold over several years.

Guideline #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 6% of state personal income

- Comprehensive measure that includes all forms of state obligations
- Recognizes the total obligations authorized in law, not just the amount that has been issued
- Retains and updates an important element of current guidelines
- Data is easy to access and simple to understand

The state is currently within Guideline #2

Total principal sold plus authorized and not yet sold	\$15.637 billion
FY 2025 state personal income estimate – SPGMI forecast	\$444.485 billion
As a percent of state personal income, not to exceed 6.0%	3.52%
Estimated maximum amount of additional tax-supported debt that could be authorized before exceeding Guideline #2	\$11.032 billion

Guideline #3: 40% of general obligation debt shall be due within five years and 70% within ten years, if consistent with the useful life of the financed assets and/or market conditions

- Conservative debt management practice of the state is continued
- Pays down debt obligations quickly to preserve long-term flexibility and debt capacity
- Ensures that the cost of bonding bills is recognized quickly
- Creates some flexibility so that debt for certain assets (bridges, for example) might be financed differently than others (trails, for example)
- Maintains current practice for paying down debt quickly -- 40% of general obligation debt is due within five years and 70% is due within ten years.

Of the state’s general obligation bonds outstanding on June 30, 2024, 43.4% were scheduled to mature within five years and 75.6% were scheduled to mature with ten years. Furthermore, of the state’s general obligation bonds expected to be outstanding on June 30, 2025, 42.2% are scheduled to mature within five years and 73.1% are scheduled to mature with ten years. The state is currently within Guideline #3.

Maximum Debt Capacity under Current Guidelines

The maximum debt capacity refers to the amount of additional debt that could be authorized each legislative session without exceeding our debt guidelines. This information can be used to answer the question of how big a bonding bill *could* be, but does not suggest how big a bonding bill *should* be.

The table below shows the maximum annual new debt authorizations until the limit in either Guideline #1 or Guideline #2 is reached. Our calculations assume that the maximum amount of state debt would be authorized. This table shows that the maximum limit under Guideline #1 would be reached first in FY 2031. The table also shows the additional general fund debt service costs resulting from the maximum authorizations.

**Maximum Debt Capacity:
Personal Income (Guidelines #1 and #2)**

<i>Dollars in millions</i>	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Bonding Bills Assumed in Nov '24 Forecast	\$790	\$1,010	\$165	\$1,010	\$165	\$1,010
Maximum New Debt Authorizations Within Debt Guidelines #1 and #2	\$3,475	\$2,800	\$2,500	\$2,800	\$2,500	\$2,800
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Impact on Guideline #1	1.99%	2.24%	2.57%	2.84%	2.97%	3.25%
Impact on Guideline #2	4.11%	4.47%	4.70%	4.86%	5.00%	5.37%
Additional Debt Service Required	\$42	\$167	\$351	\$580	\$715	\$910

* Impacts to Guidelines #1 and #2 from a bonding bill passed during regular legislative session are first reported in a November debt capacity forecast and therefore shown in the following fiscal year

Sources

- Minnesota Management and Budget Debt Capacity Forecast, December 4, 2024
- Minnesota House Research Report on Transportation Bonding, February, 2021
- Minnesota House Research Report on Capital Investment and State Bonding, January, 2019
- MnDOT Fact Sheet – Local Bridge Replacement Program, June, 2024
- MnDOT Fact Sheet – Local Road Improvement Program, November, 2024
- MnDOT Transportation Funds Forecast November 2024, December 10, 2024