



Overview of State Appropriation Bonds

Presentation to the Legislative-Citizen Commission on Minnesota Resources

Jennifer Hassemer | Assistant Commissioner for Debt Management

July 18, 2018

Purpose of Presentation

- Review bond basics
- Provide background on state bonding
- Compare general obligation and appropriation bonds
- Review ENRTF bond authorization from 2018 legislation

What is a Bond?

- Municipal bonds are debt securities
- Issued by states, cities, counties and other governmental entities
- Finance capital projects
- The bond issuer agrees to pay interest and the return on the investment, the principal, to the bondholders who have loaned the issuer money for the project(s)

Characteristics of Bonds

- Issuer
- Purpose
- Credit structure/source of repayment
- Maturity structure
- Call feature
- Price
- Tax status
- Interest rate
- Term
- Rating

State Bonding Background

- The State can only issue debt with legislative authorization
 - Constitution governs issuance of general obligation debt, and legislature must authorize issuance of general obligation bonds
 - Specific legislative authorization required for other forms of obligations
- Types of debt historically issued by MMB
 - General obligation bonds
 - State appropriation bonds
 - Certificates of participation
 - Revenue bonds

Comparison of General Obligation and Appropriation Bonds

- General obligation bonds (various purpose and trunk highway)
 - State's full faith and credit pledged
 - Lowest interest cost
 - Current state ratings: AAA/Aa1/AA+
 - Legislative authorization required for each project
- State appropriation bonds
 - Payment of debt service is subject to the annual appropriation of the legislature
 - Slightly higher interest cost
 - Rated one "notch" below the State's GO rating: AA+/Aa2/AA
 - Added flexibility compared to general obligation bonds
 - Legislative authorization required for each project

ENRTF Appropriation Bonds

- Minn. Stat. Sec. 16A.969
 - General authorization for MMB to issue ENRTF appropriation bonds
- Laws 2018, Ch. 214, Art. 6, Sec. 4
 - MMB can sell ENRTF appropriation bonds to finance \$98 million in project costs
 - Legislature appropriated ENRTF funds to MMB through FY39 for debt service
 - \$2,940,000 in FY19
 - \$7,840,000 each year in FY20 through FY39
 - Projects are subject to the rules and requirements of Minn. Stat. Ch. 116P

Thank you

For more information:

Jennifer Hassemer | Assistant Commissioner for Debt Management

Jennifer.Hassemer@state.mn.us

651-201-8079