



The Capital Budget Process for State Agencies and Political Subdivisions

Marianne Conboy | Capital Budget Coordinator

The Capital Budget

- Developed in the odd-numbered calendar year for submission to the Legislature in January of the even-numbered calendar year
- Funded primarily by issuing state General Obligation (GO) bonds
- GO bonds may only be used for qualified capital expenditures





MMB Capital Budget System (CBS)

- Capital budget requests are submitted through the web-based Capital Budget System (CBS)
- CBS manages the collection of capital project requests, including project overview narrative information, funding sources, project costs, statutory requirements, and uploaded documents
- The CBS website provides additional information about system access and system training materials, including the User Guide and new training videos
 - <https://mn.gov/mmb/budget/statewide-budget-systems/cbs/>



Capital Budget Instructions

- MMB issues instructions for capital budget requests in the spring of the year preceding its submission to the Legislature
- The Capital Budget Instructions website provides separate instructions for state agencies and local governments, including a memo, an instructions document, templates, and frequently asked questions
 - <https://mn.gov/mmb/budget/budget-instructions/capbud/>



What Information is Published by MMB?

- Detailed project information submitted in CBS is published in three reports:
 1. Projects Summary
 2. Project Narrative
 3. Project Detail

2022 Legislative Session requests:

<https://mn.gov/mmb/budget/capital-budget/current/>

Previously published requests:

<https://mn.gov/mmb/budget/capital-budget/library/>

Example of a Published Capital Budget Request

Red Wing, City of

Project Narrative

(\$ in thousands)

Upper Harbor - Bay Point Renewal

AT A GLANCE

2022 Request Amount: \$4,100

Priority Ranking: 1

Project Summary: \$4.1 million in State funds are needed and requested for design, engineering and construction to fund Red Wing's Phase II project on the Mississippi River riverfront, the Upper Harbor - Bay Point Renewal. The state bonding ask is to complete the final project phase of a two phased project.

Project Description

The \$4.1 million in requested state funds will be used for engineering, environmental review, final design, engineering construction management and the capital construction costs for the project.

The project will realign 1,700 feet of Levee Road from the existing round-a-bout adjacent to railroad rights-of-way. This will allow for a new dual use parking lot/semi-truck fleeting/staging area to be constructed on a portion of an existing brownfield. The constructed design of the roadway and parking/truck fleeting area will alleviate parking pressure, redirect and realign the grain truck traffic movements which will improve efficacies of grain truck fleeting operations during the harvest season. At other times the space is needed for overflow parking for the boat launchers using the

PROJECT FUNDING SOURCES

Funding Source	Prior Years	FY 2022	FY 2024	FY 2026
State Funds Requested				
General Obligation Bonds	\$0	\$4,100	\$0	\$0
Funds Already Committed				
City Funds	\$0	\$545	\$0	\$0
Pending Contributions				
Other State Funds	\$0	\$140	\$0	\$0
Federal Funds	\$0	\$601	\$0	\$0
Other Funding	\$0	\$75	\$0	\$0
TOTAL	\$0	\$5,461	\$0	\$0

TOTAL PROJECT COSTS

Cost Category	Prior Years	FY 2022	FY 2024	FY 2026
Property Acquisition	\$0	\$0	\$0	\$0
Pre-design Fees	\$0	\$0	\$0	\$0
Design Fees	\$0	\$1,161	\$0	\$0
Project Management	\$0	\$0	\$0	\$0
Construction	\$0	\$4,300	\$0	\$0
Relocation Expenses	\$0	\$0	\$0	\$0
One Percent for Art	\$0	\$0	\$0	\$0
Occupancy Costs	\$0	\$0	\$0	\$0
Inflationary Adjustment*	\$0	\$0	\$0	\$0
TOTAL	\$0	\$5,461	\$0	\$0



Upcoming 2024 Timeline for State Agencies

Year	Timeframe	Action
2023	March - May	MMB authorizes CBS users
	Mid-June	Deadline for all state agency preliminary requests to be submitted in CBS
	June - Oct	MMB staff review requests and conduct site visits as needed
	July 15	MMB publishes and submits all state agency requests to the Legislature
	September	Deadline for Agency Profile and Strategic Planning Summary to be submitted in SharePoint
	Mid-October	Deadline for all state agency final requests to be submitted in CBS
2024	January 15	Governor Walz submits his 2024 capital budget to the Legislature and MMB publishes all state agency requests
	May	Legislature adjourns



Upcoming 2024 Timeline for Local Governments

Year	Timeframe	Action
2023	March - May	MMB authorizes CBS users
	Mid-June	Deadline for all local government requests to be final submitted in CBS
	June - Oct	MMB staff review requests and conduct site visits as needed
	July 15	MMB publishes and submits all local government requests to the Legislature
	Mid-October	Deadline for final edits to local government requests to be submitted in CBS
2024	January 15	Governor Walz submits his 2024 capital budget to the Legislature and MMB publishes all local requests
	May	Legislature adjourns



MMB's Evaluation of Capital Projects

- Is the project eligible for general obligation bond funding?
- Has all required information been entered in CBS, including statutory requirements?
- Do Funding Sources equal Project Costs (projects cannot be submitted if totals do not match; sources must be sufficient to cover project costs)
- What problem does the project address?
- Does the project serve a statewide or regionally-significant purpose?
- Can the project be completed in phases?
- Will the project require additional state subsidies to operate?



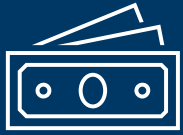
Evaluating Capital Projects *(for Local Governments)*

- Could the project be funded through an existing statutory grant program (ex: Local Road Improvement Program, Wastewater Infrastructure Funding Program, or Transportation Economic Development Program)?
- Can the project be completed with nonstate funds?
- Does the project serve a public purpose, and will the project be owned and operated by a public entity?
- Is there a resolution of support from the jurisdiction's governing body (uploaded to CBS)?
- Does the project have the required 50% nonstate match?



Evaluating Capital Projects *(continued)*

- The proposed funding source must be appropriate for the scope of work
 - General Obligation Bonds – the most frequently requested funding source, requires public ownership
- Some alternative financing mechanisms that might be considered include:
 - State Trunk Highway Bonds – construction, improvement and maintenance of the trunk highway system
 - State Appropriation Bonds – more flexible tool than general obligation bonds (such as public ownership)
 - General Fund Cash – certain capital grants or related expenditures that are not eligible for bonding



Reimbursing Expenses Incurred in the Past

For GO bonds:

- Any expenses incurred by a political subdivision for a project prior to the effective date of the bonding bill must remain funded by sources other than general obligation bond proceeds, such as local funds
- Non-state expenditures such as these can count toward matching funds and/or full funding for the project
- Until state funds are appropriated, and a grant agreement is entered into, the grantee begins work at its own risk and is responsible for understanding and complying with all applicable public contracting rules



Nonprofit Organization Projects

General obligation (GO) bonds

- A political subdivision cannot be a mere fiscal agent or conduit through which GO bond funds flow
 - The political subdivision must have a qualifying ownership interest in the project and must remain responsible for operating the bond financed property and the public program associated with it, even if the outside group abandons the project or property.
 - The political subdivision that owns the project can enter into a use agreement with the outside group permitting the outside group to carry out the governmental program.

General fund cash

- A nonprofit project can seek direct funding from the capital budget

Thank you

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Bonding Restrictions, Capital Investment Guidelines, and Debt Capacity

Jennifer Hassemer | Assistant Commissioner for Debt Management

Are There Restrictions on Spending GO Bond Proceeds?

- State issues tax-exempt bonds to realize lower borrowing costs, and must comply with federal tax regulations
- Tax-exempt governmental bonds must be issued for a valid governmental purpose and not for a private activity
- Bond counsel provides a legal opinion at the time bonds are issued that the bonds meet all federal and state law requirements

Projects Eligible For State GO Bond Financing

- Article XI, Section 5, of the Minnesota Constitution contains the authority for incurring public debt (GO bonds)
 - Subdivision (a) authorizes debt “to acquire and to better public lands and buildings and other public improvements of a capital nature, and to provide money to be appropriated or loaned to any agency or political subdivision of the state for such purposes.”
- In other words...
 - The project must be for a ***public purpose***
 - The project must be ***publicly owned***
 - The purpose of the bonds ***must be clearly set forth*** in the law
 - Project activities must constitute ***capital expenditures***

Allowable Capital Expenditures

- Capital expenditures test:
 - Long-lived: ≥ 10 years
 - Fixed asset: land, building, capital equipment or other improvement to land
- Purchase of land, buildings, easements
- Predesign and design
- Construction (including environmental testing and site preparation)
- Major renovation, roof reconstruction and replacement, major window replacement (if add to value or life of building)
- Fixtures, furnishings and equipment, only if installed:
 - Upon initial construction, or
 - During major renovation to make the facility usable for the first time

Ineligible Capital Expenditures

Examples include:

- Options to purchase land or buildings
- Fixtures, furnishings and equipment independent from any construction project
- General studies to evaluate the need for a capital project
- Educational, promotional or informational costs incurred for a project not yet sited
- Computer and financial modeling for a project not yet sited
- Master planning

Ineligible Capital Expenditures * (*continued*)

More examples:

- Demolition without any associated redevelopment
- All relocation and moving costs
- Operating and maintenance costs
- Betterments to leaseholds with less than a 10-year term
- Software and data management systems
- Personal computers
- Marketing expenses

**This is not an exhaustive list*

Use of Bond Financed Property

Use Contracts

- Definition: a lease, management or other contract between the public owner of BFP and another party operating or using it
- Governed by M.S. §16A.695, Commissioner's Order and [Use Contracts Checklist](#)
- MMB approval required
- Must carry out a government program
- The term of the use agreement must be substantially less than the property's useful life ($\leq 50\%$ is rule of thumb)
- A portion of any revenue received goes to pay off state GO bonds, if more revenue is received than is needed to cover operating costs

- Private use is **any** direct or indirect use by a nongovernmental person or entity
- Certain IRS safe harbors may apply
- Involve MMB at earliest opportunity
- Bond-financed facilities used for private business threatens the tax-exempt status of the state's bonds

Examples of Private Use *

- Rented skyboxes in sports facilities
- Concessions
- Naming rights, broadcast rights, advertising, sponsorships
- Leased space
- Office buildings
- Convention center/arenas
- Airport terminals
- Parking garages
- Academic institutions
- Stadiums
- Business incubators
- Cell phone towers, solar panels, electric vehicle charging stations

**This is not an exhaustive list*

What Additional Requirements Apply to Local Projects?

Grant Agreements

- Always required when a state agency funds a grant to a local project
- Not required if appropriation is made to a state agency for its own capital needs
- MMB has prepared generic forms for state agency use:
 - <https://mn.gov/mmb/debt-management/capital-projects/grant-agreements/>
 - Forms are slightly different depending on funding source

Statutory Authority & Program Operation

- Grantee must have independent statutory authority to operate the project (for example, via charter or statute)
- The bonding legislation alone does not normally provide authority to operate the project or program
- Grant recipients must demonstrate to granting agency that they have an ability and plan to fund the program intended for the facility
- Local government must actively oversee the ongoing operation of the project

Full Funding Requirement

- **All** financing must be in place to complete the project before the grant will be made available (M.S. §16A.502)
- Clarify what the “project” is; e.g., if just predesign, funding for construction is not needed
- [Capital Grants Manual](#) lists acceptable documentation for different funding sources

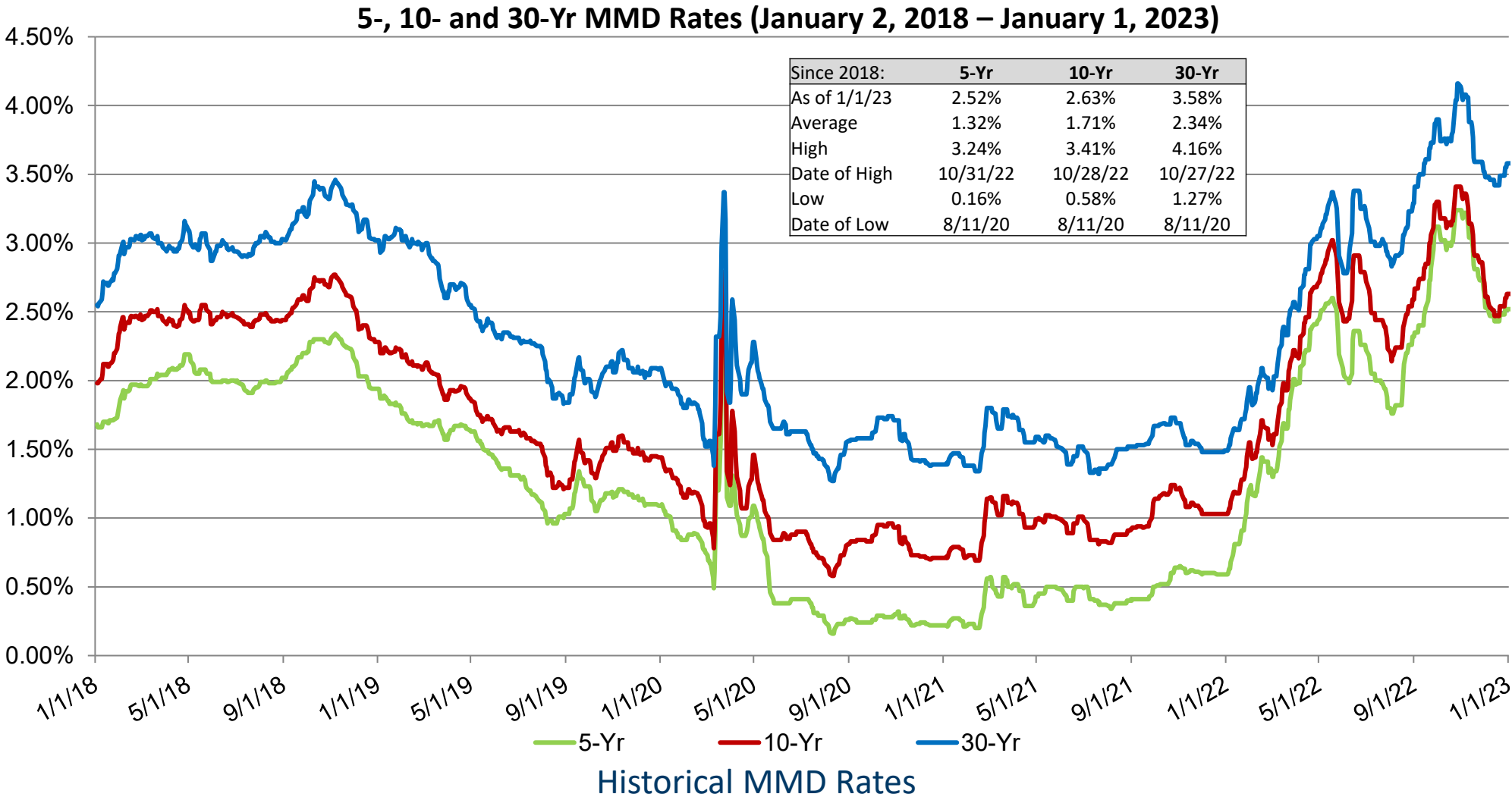
Cancellation Report

Cancellations (M.S. §16A.642)

- Commissioner of MMB issues cancellation report on January 1 of each year
- Lists all bond and general fund capital appropriations previously enacted > 4 years with unspent and unencumbered balances
- The 2023 report showed amounts from 2018 bonding bill and earlier
 - Total of \$25.2 million
- Such balances will be cancelled as of July 1 of the year of the report
- Cancelled balances go to repay state bonds

Municipal Bond Market

Municipal Bond Market Since 2018



Source: TM3/Refinitiv

Capital Investment Guidelines

Debt Capacity Report

- Debt Capacity Report published according to Minn. Stat. 16A.105
 - Statement of indebtedness
 - Debt service costs
 - Borrowing capacity

	Principal Outstanding	Authorized, Unissued
General Obligation Bonds	\$4,186,565,000	\$856,151,021
Trunk Highway Bonds	\$2,245,060,000	\$1,223,178,333
Annual Appropriation Debt	\$1,567,710,000	\$75,415,000
Total	\$7,999,335,000	\$2,154,744,354

Purpose of Minnesota's Capital Investment Guidelines

- Why have guidelines?
 - Guide decision making
 - Communicate policy goals
 - Demonstrate commitment to long-term capital and financial planning
- Why these guidelines?
 - Consistent with other states and rating agency review
 - Inclusive of all debt obligations
 - Represent Minnesota's strong financial management

Types of Debt Measured in Guidelines

- General obligation bonds (various purpose and trunk highway)
- State appropriation bonds
- Agency bonds, payable from standing appropriations
- Lease-purchase financing for real estate
- Lease-purchase financing for equipment
- Moral obligation debt

Capital Investment Guideline #1

- **Guideline #1:** Total tax-supported principal outstanding (sold) shall be 3.25% or less of total state personal income. **Nov. 2022: 2.02%**
- What debt is included?
 - State Issued Debt
 - General Obligation Various Purpose Bonds; General Obligation Trunk Highway Bonds; State Appropriation Bonds
 - State-Supported Debt
 - State standing appropriations (University of Minnesota and Minnesota Housing Finance Agency); Lease-Purchase Financing for Real Estate
- “Self-supporting debt” is not included (for example, revenue bonds)

Capital Investment Guideline #2

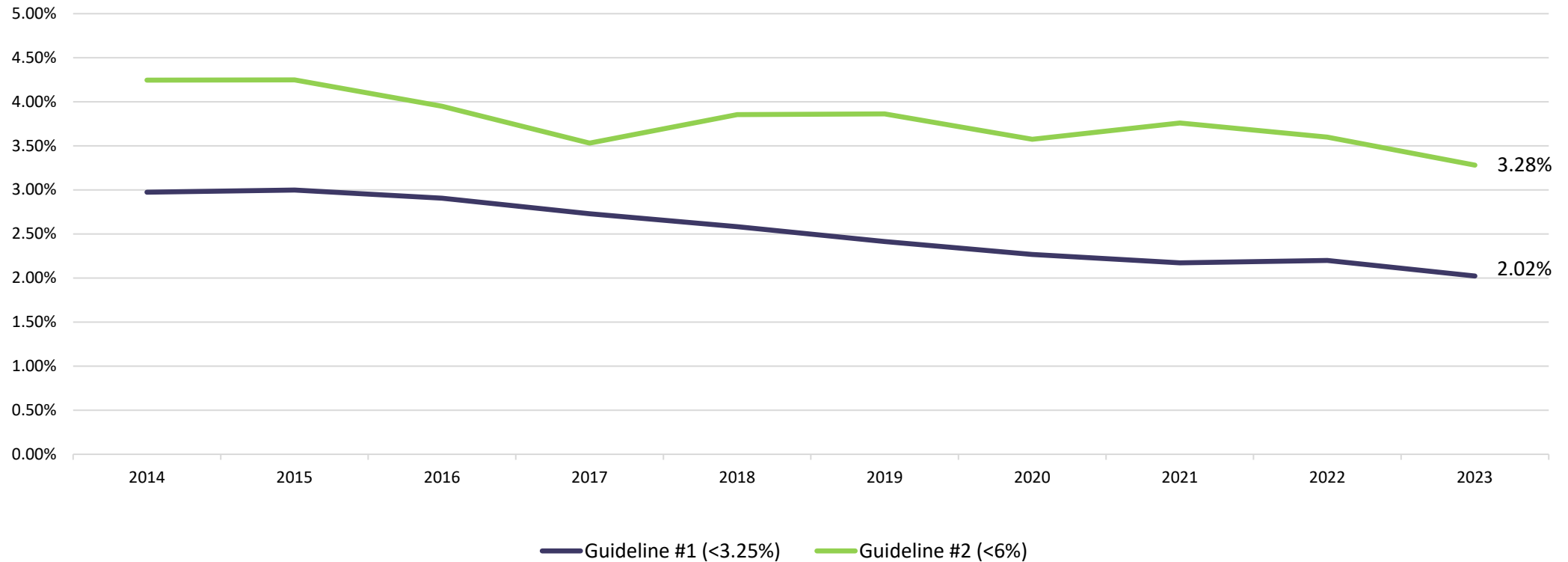
- **Guideline #2:** Total amount of tax-supported principal (both sold and authorized/unsold) for state general obligations, state moral obligations, equipment capital leases and real estate capital leases shall not exceed 6% of total state personal income. **Nov. 2022: 3.28%**
- What debt is included?
 - All debt types included in Guideline #1, including authorized but unissued, plus
 - Moral obligations (Housing Finance Agency, Office of Higher Education)
 - Lease purchase financing for equipment

Capital Investment Guideline #3

- **Guideline #3:** At least 40% of state G.O. bonds are to mature within 5 years and 70% within 10 years. **Nov. 2022: 42.7% / 74.8%**
- Cost of bonding bills are realized more quickly

Historic Guideline Calculations

Capital Investment Guidelines #1 and #2



Debt Capacity

Managing State Debt Capacity

- Guidelines reflect a point in time
 - Once bonds are authorized, they first appear in Guideline #2
 - Once bonds are issued, they also appear in Guideline #1
 - Bonds are sold on a cash flow needs basis; the full authorization is not issued at once
- Debt Capacity reflects projections
 - Helps answer question, *How big could the bonding bill be?*
 - Based on forecast assumptions of 10-year rolling average
 - \$880 million in 2023 / \$880 million in even years / \$135 million in odd years (November 2022 Forecast)

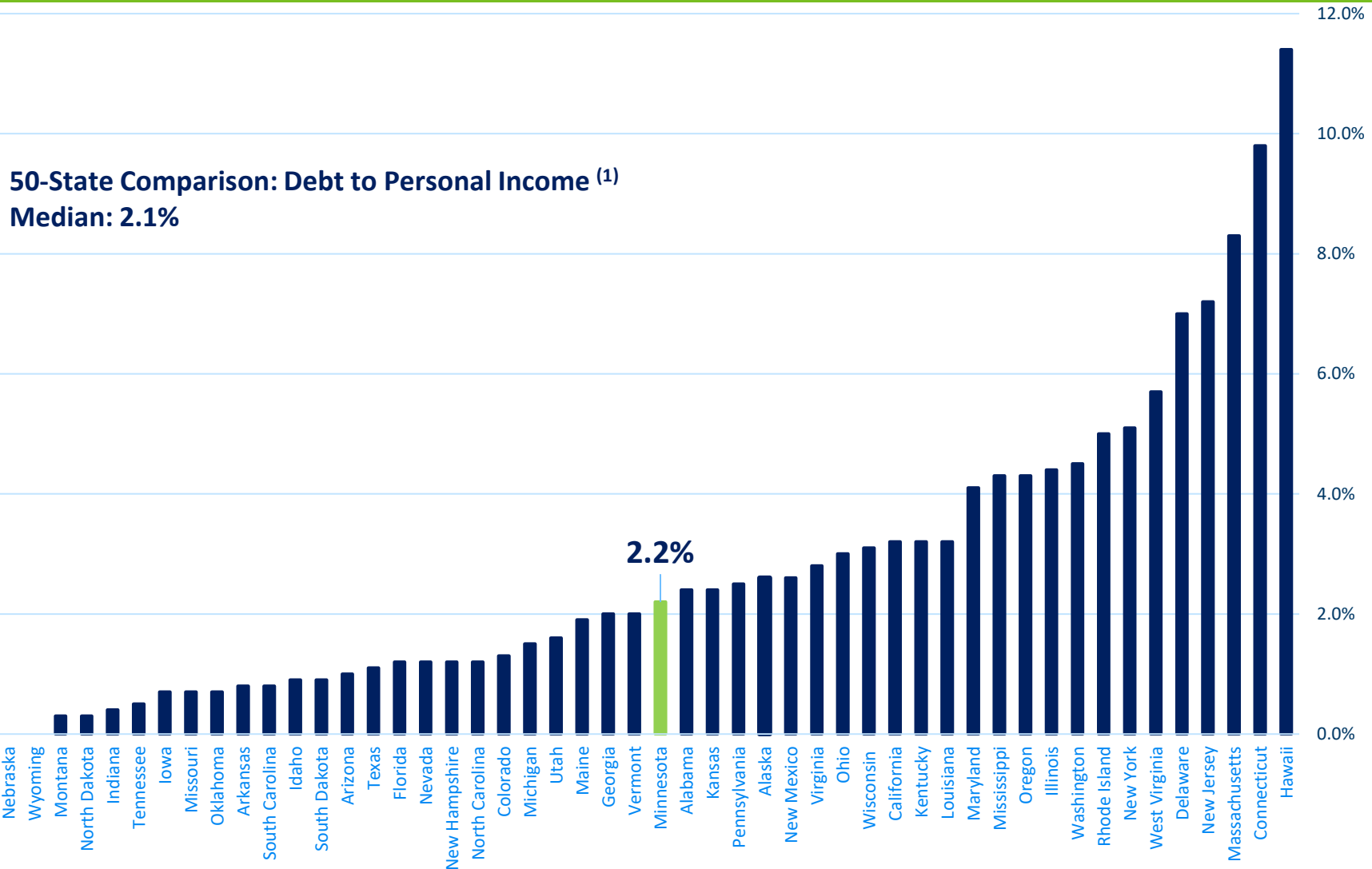
Managing State Debt Capacity

November 2022 Debt Capacity Report Maximum

<i>Dollars in millions</i>	FY23	FY24	FY25	FY26	FY27	FY28
Bonding Bill Assumed in Nov. 2022 Forecast	\$880	\$880	\$135	\$880	\$135	\$880
Maximum New Debt Authorizations Within Debt Guidelines	\$3,500	\$2,550	\$1,900	\$2,500	\$2,150	\$2,500
	FY24	FY25	FY26	FY27	FY28	FY29
Impact on Guideline #1	2.10%	2.34%	2.67%	2.97%	3.10%	3.25%
Impact on Guideline #2	3.87%	4.16%	4.27%	4.48%	4.65%	4.83%
Additional Debt Service Required	\$43	\$161	\$326	\$494	\$624	\$809

*Note: Guideline 3 also has a bearing on capacity limits and is not reflected in this table.

State-by-State Comparison



Source: Moody's State Debt Medians 2022, September 7, 2022.

Thank you

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<https://mn.gov/mmb/debt-management/>

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