



**Agencies' Use of Capital Appropriations  
for Staff Costs Attributable to  
Capital Programs or Projects**

Report to the Legislature

*January 17, 2012*

*As required by  
Minn. Stat. Sec. 16A.501(b)*

## **ESTIMATED COSTS OF PREPARING THIS REPORT**

The cost information reported below is the estimated cost of preparing this report document. Special funding was not appropriated for the costs of preparing this report.

In accordance with Minn. Stat. Sec. 3.197, the estimated cost incurred by Minnesota Management & Budget in preparing this report is less than \$1,000.

## **BACKGROUND**

During 2009, MMB decided to formalize a policy regarding agencies' use of general obligation bond appropriations to pay for staff costs incurred in delivering a capital project or program. It decided to do so after discovering that some agencies were charging staff costs without specific legislative authorization to do so and were doing so in an inconsistent manner. Some agencies were charging staff costs based on a flat percentage of project costs and others were tracking actual employee hours spent.

On October 20, 2009, MMB issued its "Policy Regarding Use of General Obligation Bond Proceeds to Fund Staff Costs", a copy of which is attached as **Exhibit B** to this report. In that policy, MMB stated that its policy would apply to bonding appropriations authorized in the 2010 legislative session and to earlier bonding appropriations that contained specific statutory authority to use G.O. bond proceeds to pay costs of staff directly involved in delivering a capital project or program.

MMB's goal in implementing the new policy was to establish uniformity across agencies in the procedures used by agencies to charge staff costs to bonding appropriations and to establish MMB oversight of the process. The policy requires each agency desiring to charge staff costs to bonding appropriations to submit a plan to MMB for its approval. The plan must indicate how the agency intends to track staff costs charged to each bonding appropriation, and such tracking must be by employee, by project or program and by hour spent. Each agency must report staff costs charged to bonding appropriations to its MMB executive budget officer on a quarterly basis and certify that such time is properly capitalizable as a cost of the project or program in accordance with applicable accounting principles.

Section 1 of the 2010 bonding bill (Laws 2010, chapter 189) and Section 1 of the 2011 bonding bill (Laws 2011, First Special Session, chapter 12) specifically authorized agencies to use capital appropriations to pay staff costs directly attributable to the capital program or project in accordance with accounting policies adopted by the Commissioner of MMB. The bonding bill also imposed a new reporting requirement for MMB as discussed below.

## **THE REPORTING REQUIREMENT**

Section 28 of the 2010 bonding bill (codified as Minn. Stat. Sec. 16A.501(b)) requires MMB to report to the Legislature by January 15 of each year as to the amount and percentage of each agency's capital appropriation that is used to pay for the costs of staff directly attributable to capital programs or projects funded with state general obligation bond proceeds. The report must also address agency compliance with policies of the Commissioner of MMB as to use of general obligation bond proceeds to pay staff costs and any changes to the Commissioner's policies.

## AGENCY REPORTING AND COMPLIANCE

The following ten agencies have submitted plans to MMB to charge staff costs to one or more bonding appropriations and such plans were approved by MMB: Administration, Board of Water and Soil Resources, Department of Natural Resources, Minnesota Historical Society, Metropolitan Council, Pollution Control Agency, Department of Transportation, University of Minnesota, Minnesota State Colleges and Universities and the Minnesota Zoo.

To date, the following eight agencies have submitted one or more quarterly reports of staff costs charged to bonding appropriations: Administration, Department of Natural Resources, Minnesota Historical Society, Pollution Control Agency, Department of Transportation, University of Minnesota, Minnesota State Colleges and Universities and the Minnesota Zoo. The data submitted by these agencies were compiled by MMB and appear on the spreadsheet attached as **Exhibit A** to this report.

The following three agencies indicated that they did not intend to charge staff costs to bonding appropriations and thus did not submit a plan for charging staff costs to MMB: Department of Corrections, Military Affairs and Department of Public Safety. For the Departments of Corrections and Public Safety, their capital appropriations for construction projects for state-owned assets are administered by the Department of Administration and thus they may not have submitted plans for that reason.

The following agencies who received capital appropriations in the 2010 and 2011 bonding bills (Laws 2010, chapter 189 and Laws 2011, First Special Session, chapter 12, respectively) neither submitted a plan to MMB nor did they indicate that they did not intend to charge staff costs to bonding appropriations: Amateur Sports, Department of Employment and Economic Development, Department of Human Services, Minnesota State Academies, Perpich Center for Arts Education, Public Facilities Authority and Veterans Affairs. In the case of DHS, the State Academies, Perpich Center and Veterans Affairs, their capital appropriations for construction projects for state-owned assets are administered by the Department of Administration and thus they may not have submitted plans for that reason.

With respect to MMB's assessment of the degree of agency compliance with the Commissioner of MMB's policy regarding staff costs, we believe that the agencies which submitted plans to us worked diligently with us to incorporate requested changes to their plans and make sure they understood the new process. Our policy does not require agencies to inform MMB if they do not intend to charge staff costs to capital appropriations, and thus no conclusion as to compliance can be drawn for the agencies who did not submit plans, unless they specifically stated they did not intend to charge staff costs as discussed above. Similarly, the three agencies who submitted plans but have not submitted quarterly reports may have decided not to charge staff costs to bonding appropriations.

Minn. Stat. Sec. 16A.501(b) requires MMB to discuss any changes to its policies regarding the charging of staff costs to bonding appropriations. MMB has not changed the policy adopted on October 20, 2009 and discussed above.

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REPORT TO LEGISLATURE (M.S. §16A.501(b))												
AMOUNT OF CAPITAL APPROPRIATIONS USED TO PAY AGENCY STAFF COSTS												
				Amount	Amount					Total		
				Previously	Spent for	Amount Spent for Staff Costs in:				Spent in this	Cumulative	% of
Agy	Legal Citation	Fiscal	Appropriation Name	Original	Staff Costs	2Q FY11*	3Q FY11	4Q FY11	1Q FY12	Reporting	Total Spent	Approp.
		Year		Approp.						Period		
<b>Administration</b>												
	06 258 00 012 002	2006	ADMN CAPITAL ASSET PRESERVTN	\$ 4,000,000	\$ 10,800.29					\$ -	\$ 21,600.58	1%
	08 365 00 003 000	2008	ADMIN - CAPRA	3,400,000	16,833.72	-				-	16,833.72	0%
	08 152 02 005 000	2008	DOT BUILDING EXTERIOR REPAIR	18,197,000	8,724.50					-	8,724.50	0%
	08 179 00 012 002	2008	PROPERTY ACQUISITION - 639 JACK	2,325,000	4,611.39					-	4,611.39	0%
	08 179 00 012 003	2008	ADM - CAP BLDG RESTORATION	13,400,000	42,904.05					-	42,904.05	0%
	08 179 00 018 003	2008	DHS - REDEVLOP/REUSE/DEMO	3,400,000	9,807.91					-	9,807.91	0%
	10 189 00 005 002	2010	MSA-ASSET PRESERVATION	2,000,000	1,173.32	1,288.27	1,184.58	2,439.90	1,112.91	6,025.66	7,198.98	0%
	10 189 00 005 003	2010	MSA-IND LIVING HOUSING	500,000	3,169.07	-	-	-	-	-	3,169.07	1%
	10 189 00 006 002	2010	PCAE-ALPHA BLDG DEMOLITION	755,000	801.97	2,260.40	1,218.82	-	-	3,479.22	4,281.19	1%
	10 189 00 006 003	2010	PCAE-DELTA DORM WINDOWS	489,000	814.82	311.67	413.07	642.55	459.05	1,826.34	2,641.16	1%
	10 189 00 006 004	2010	PCAE-STORAGE BUILDING	129,000	-					-	-	0%
	10 189 00 011 002	2010	ADMIN - CAPRA	2,000,000	-		1,822.19	6,836.77	4,854.67	13,513.63	13,513.63	1%
	10 189 00 011 003	2010	ADMIN - ASSET PRESERVATION	6,750,000	1,067.55	417.91	128.07	170.76	-	716.74	1,784.29	0%
	10 189 00 011 003	2010	ADMIN - CAPITAL CAMPUS SEC	1,250,000	1,201.60	1,039.67	2,708.27	966.56	137.70	4,852.20	6,053.80	0%
	10 189 00 011 003	2010	ADM-GOV RESIDENCE PREDESIGN	75,000	-	45.76	878.44	488.00	-	1,412.20	1,412.20	2%
	10 189 00 014 003	2010	DPS-EMER OPS CENTER	2,250,000	-	-	-	5,350.80	780.85	6,131.65	6,131.65	0%
	10 189 00 018 002	2010	DHS - ASSET PRESERVATION	2,000,000	-	-	-	-	-	-	-	0%
	10 189 00 018 005	2010	DHS-MOOSE LAKE SEX OFF FAC	47,500,000	5,334.19	9,394.14	7,893.13	10,028.20	5,177.30	32,492.77	37,826.96	0%
	10 189 00 019 002	2010	VA-ASSET PRESERVATION	4,000,000	2,002.34	4,732.84	4,767.91	7,966.43	2,777.36	20,244.54	22,246.88	1%
	10 189 00 019 004	2010	VA-MPLS VETS HOME	9,450,000	2,004.29	2,535.83	4,244.01	11,553.65	2,957.55	21,291.04	23,295.33	0%
	10 189 00 020 002	2010	DOC-ASSET PRESERVATION	8,000,000	5,018.23	10,168.34	13,948.03	14,160.30	4,324.54	42,601.21	47,619.44	1%
	10 189 00 020 004(a)	2010	DOC OPH EXT DETECTION SYSTEM	3,529,000	1,141.03	1,049.19	1,652.47	2,115.51	1,174.56	5,991.73	7,132.76	0%
	10 189 00 020 004(b)	2010	DOC OPH SECURITY SYSTEM	6,500,000	367.17	-	550.81	1,564.66	459.02	2,574.49	2,941.66	0%
	111 012 00 004 000	2012	MSA-ASSET PRESERVATION	2,160,000	-	-	-	-	-	-	-	0%
	111 012 00 009 002	2012	ADMIN - CAPRA	2,830,000	-	-	-	-	-	-	-	0%
	111 012 00 009 003	2012	ADMIN - ASSET PRESERVATION	8,150,000	-	-	-	-	-	-	-	0%
	111 012 00 010 000	2012	OET-STATE DATA CENTERS	5,659,000	-	-	-	-	-	-	-	0%
	111 012 00 015 002	2012	DHS - ASSET PRESERVATION	4,700,000	-	-	-	-	-	-	-	0%
	111 012 00 015 004	2012	DHS-MSOP ST PETER SHANTZ BLDG	7,000,000	-	-	-	-	-	-	-	0%
	111 012 00 016 000	2012	VA-ASSET PRESERVATION	2,300,000	-	-	-	-	-	-	-	0%
	111 012 00 017 000	2012	DOC-ASSET PRESERVATION	19,000,000	-	-	-	-	-	-	-	0%
<b>MN Historical Society</b>												
	10 189 00 024 002	2010	10 HISTORIC SITES ASSET PRES	3,400,000	-	-	14,323.61	3,713.63	5,371.11	23,408.35	23,408.35	1%
<b>Pollution Control Agency</b>												
	05 020 01 023 003	2005	WIF ADMIN**	600,000	335,820.66					-	335,820.66	56%

				Amount						Total		
				Amount of	Previously					Spent in this		
		Fiscal		Original	Spent for	Amount Spent for Staff Costs in:				Reporting	Cumulative	% of
Agy	Legal Citation	Year	Appropriation Name	Approp.	Staff Costs	2Q FY11*	3Q FY11	4Q FY11	1Q FY12	Period	Total Spent	Approp.
<b>Transportation</b>												
	08 152 02 003 003	2008	GREAT RIVER ROAD	4,299,000	48,238.19			68.55		68.55	48,306.74	1%
	09 093 01 011 005	2009	INTERCITY PASSENGER RAIL	26,000,000	-	794.09	10,445.07	28,929.85	4,469.86	44,638.87	44,638.87	0%
<b>Natural Resources</b>												
	05 020 01 007 014	2005	STATE TRAIL DEV-BLAZING STAR	1,500,000	25,687.75	-	-	-	-	-	25,687.75	2%
	05 020 01 007 014	2005	STATE TRAIL DEV-BLUFF PRESTON	435,000	24,689.27	(3,489.32)	-	-	-	(3,489.32)	21,199.95	5%
	05 020 01 007 014	2005	STATE TRAIL DEV-BLUFF ROCHESTER	200,000	851.30	6,989.32	-	-	-	6,989.32	7,840.62	4%
	05 020 01 007 014	2005	STATE TRAIL DEV-MILL TOWNS	300,000	20,765.10	(6,384.39)	-	-	-	(6,384.39)	14,380.71	5%
	05 020 01 007 014	2005	STATE TRAIL DEV-SHOOTING STAR	450,000	9,754.78	-	-	-	-	-	9,754.78	2%
	06 258 00 007 021	2006	STATE TRAIL ACQ & DEV-BLUFFLANDS	750,000	29,240.29	(11,700.15)	-	-	-	(11,700.15)	17,540.14	2%
	06 258 00 007 021	2006	STATE TRAIL ACQ & DEV-CASEY JONES	500,000	8,084.23	2,932.14	7,133.28	5,224.69	-	15,290.11	23,374.34	5%
	06 258 00 007 021	2006	STATE TRAIL ACQ & DEV-GITCHI GAMI	1,185,000	69,482.64	-	-	-	-	-	69,482.64	6%
	06 258 00 007 021	2006	STATE TRAIL ACQ & DEV-GOODHUE	500,000	-	8,318.94	74.88	-	-	8,393.82	8,393.82	2%
	06 258 00 007 021	2006	STATE TRAIL ACQ & DEV-HEARTLAND	250,000	-	6,902.95	-	-	-	6,902.95	6,902.95	3%
	06 258 00 007 021	2006	STATE TRAIL ACQ & DEV-MILL TOWNS	1,000,000	20,765.60	27.52	-	-	-	27.52	20,793.12	2%
	08 179 00 007 025	2008	STATE PARK PRAIRIE RESTORE	290,000	61,525.48	3,285.60	-	6,582.03	1,823.41	11,691.04	73,216.52	25%
	08 179 00 007 025	2008	STATE PARK FOREST RESTORE	255,000	31,476.87	3,036.40	-	8,016.46	-	11,052.86	42,529.73	17%
	10 189 00 007 003	2010	FLOOD HAZARD MITIG GRANTS	63,500,000	2,815.33	3,345.53	4,757.18	4,419.64	14,076.13	26,598.48	29,413.81	0%
	10 189 00 007 004	2010	GROUNDWATER OBSERV WELLS	1,000,000	2,944.87	1,633.76	184.01	4,976.19	1,426.82	8,220.78	11,165.65	1%
	10 189 00 007 005	2010	STATE DAM RENOVATION	4,000,000	125.42	543.51	-	-	7,043.42	7,586.93	7,712.35	0%
	10 189 00 007 006	2010	WILDLIFE/AQUATIC ACQ & IMP	1,000,000	70.07	-	-	-	-	-	70.07	0%
	10 189 00 007 010	2010	STATE FOREST LAND REFORESTATION	3,000,000				298,937.29	-	298,937.29	298,937.29	10%
	10 189 00 007 011	2010	FOREST ROADS AND BRIDGES	1,000,000				49,999.73	-	49,999.73	49,999.73	5%
	10 189 00 007 012	2010	SHADE TREE PROG GRANTS	3,000,000	-	-	-	-	-	-	-	0%
	10 189 00 007 013	2010	STATE PARK REHAB	4,659,000	30,433.55	28,368.36	-	29,560.64	18,521.82	76,450.82	106,884.37	2%
	10 189 00 007 014	2010	STATE PARK & SRA AREA ACQ	2,150,000	-	-	-	-	-	-	-	0%
	10 189 00 007 015(a)	2010	CUYUNA COUNTRY SRA DEV	1,250,000	-	-	-	-	-	-	-	0%
	10 189 00 007 015(b)	2010	GLENDALOUGH STATE PARK DEV	350,000	-	-	-	-	-	-	-	0%
	10 189 00 007 016	2010	STATE TRAIL REHAB	4,000,000	-	-	-	-	-	-	-	0%
	111 012 00 005 002	2012	NAT RESOURCES ASSET PRESERV	17,000,000								0%
	111 012 00 005 003	2012	FLOOD HAZARD MITIG GRANTS	50,000,000								0%
	111 012 00 005 004	2012	ROADS AND BRIDGES	4,800,000								0%
	111 012 00 005 005	2012	LAKE VERMILION STATE PARK DEV	8,000,000								0%
	111 012 00 005 006	2012	GROUNDWATER OBSERV WELLS	600,000					118.65	118.65	118.65	0%
	111 012 00 005 007	2012	COON RAPIDS DAM RENOV	16,000,000								0%
	111 012 00 005 008	2012	STATE TRAIL ACQ & DEV	5,800,000								0%
<b>MN State Colleges and Universities</b>												
	09 093 01 016 005	2009	ROCHESTER C&TC HEATING SYS CONV	768,641					135.26	135.26	135.26	0%
	10 189 00 003 002	2010	MNSCU HEAPR (ASSET PRESERV)	56,000,000	21,549.77	9,461.60	8,832.06	9,407.67	11,215.84	38,917.17	60,466.94	0%
	10 189 00 003 003	2010	ALEX TC MAIN BLDG RENOV & ADD	200,000	463.86	480.10	589.88	102.03	415.40	1,587.41	2,051.27	1%
	10 189 00 003 007	2010	LAKE SUPERIOR HEALTH SCI CTR	12,098,000	972.41	147.29	367.29	875.63	456.24	1,846.45	2,818.86	0%

Agy	Legal Citation	Fiscal Year	Appropriation Name	Amount	Amount	Amount Spent for Staff Costs in:				Total	Cumulative Total Spent	% of Approp.
				Original	Previously	2Q FY11*	3Q FY11	4Q FY11	1Q FY12	Spent in this Reporting Period		
				Approp.	Spent for Staff Costs							
	10 189 00 003 008	2010	METRO STATE CLASSROOM CTR	5,860,000	2,429.33	1,054.24	806.63	757.13	334.91	2,952.91	5,382.24	0%
	10 189 00 003 010	2010	MSCTC MHD LIB & CLSRM ADDN	5,448,000	1,935.91	877.32	897.26	354.78	1,597.12	3,726.48	5,662.39	0%
	10 189 00 003 014	2010	MESABI EVELETH SHOP SPACE ADDN	5,477,000	2,509.78	101.32	215.31	1,461.34	846.74	2,624.71	5,134.49	0%
	10 189 00 003 016	2010	NORM CC ACAD PTSHP CTR & ST SVC	1,000,000	2,335.09	1,310.28	1,472.53	1,524.83	1,701.72	6,009.36	8,344.45	1%
	10 189 00 003 017(b)	2010	NHCC CTR FOR BUSINESS & TECH	14,782,000	3,639.63	2,105.75	1,339.94	1,333.73	1,345.01	6,124.43	9,764.06	0%
	10 189 00 003 023	2010	SCTC ALLIED HEALTH CTR RNV	5,421,000	2,094.14	583.39	525.68	277.30	478.84	1,865.21	3,959.35	0%
	10 189 00 003 024	2010	CLASSROOM INITIATIVES & DEMO	3,883,000	2,481.20	444.49	1,926.25	867.83	644.91	3,883.48	6,364.68	0%
	10 189 00 021 002	2010	PINE TECH BUSINESS INCUBATOR	200,000	3,381.36					-	3,381.36	2%
	111 012 00 003 002	2012	MNSCU HEAPR (ASSET PRESERV)	30,000,000					7,622.67	7,622.67	7,622.67	0%
	111 012 00 003 003	2012	ANOKA RAMSEY CC FINE ARTS RENO	5,327,000					306.04	306.04	306.04	0%
	111 012 00 003 004	2012	HENN TECH LRC & STUDENT CTR REN	10,566,000					3,628.54	3,628.54	3,628.54	0%
	111 012 00 003 005	2012	METRO STATE SCIENCE ED CENTER	3,444,000					1,143.10	1,143.10	1,143.10	0%
	111 012 00 003 006	2012	MSU MOORHEAD LIVINGSTON LIB	14,901,000					656.13	656.13	656.13	0%
	111 012 00 003 007	2012	NORM CC ACAD PTSHP CTR & ST SVC	21,984,000					1,073.91	1,073.91	1,073.91	0%
	111 012 00 003 008	2012	NHED MESABI IRON RANGE ENG PROG	3,000,000					1,191.13	1,191.13	1,191.13	0%
	111 012 00 003 009	2012	ST CLOUD STATE SCI & ENG LAB	42,334,000					1,264.33	1,264.33	1,264.33	0%
<b>University of Minnesota</b>												
	10 189 00 002 002	2010	HEAPR (ASSET PRESERV)	56,000,000	62,003.43	86,039.00	112,891.00	81,929.00	75,707.00	356,566.00	418,569.43	1%
<b>Zoological Society</b>												
	10 189 00 010 002	2010	ASSET PRESERVATION	8,075,000	29,651.36	28,330.66	687.24	39,321.00	34,750.17	103,089.07	132,740.43	2%
* Some staff costs for this quarter were reported previously. They are being re-reported in this column and are not reflected in the "amount previously spent" column.												
** Appropriation is entirely for program implementation.												



**Policy Regarding Use of General Obligation Bond Proceeds to Fund Staff Costs  
Minnesota Management and Budget**

October 20, 2009

***Objective:***

To account for the use of general obligation bond proceeds that agencies use to fund the capitalizable costs of staff directly involved in delivering a capital project. State agencies are strongly encouraged to charge the time of state employees working on capital projects to non-bond funding sources because of the undesirable practice of amortizing such salary costs over the 20 year life of state general obligation bonds.

***Definitions:***

*Capitalizable costs* of staff means the portion of the compensation of employees working directly on a capital project that is directly related to that capital project based on the compensation of each such employee (including employee benefits) and payroll taxes paid by the agency for such employee and the amount of time actually spent by such employee on the project that is properly capitalized as a cost of a project under generally accepted accounting principles and federal tax law. Agencies may use bond proceeds only for out-of-pocket capital costs and not for depreciation, amortization, overhead, general administration, or similar costs.

*Capital project* means the acquisition or betterment of public land and buildings and other public improvements, the costs of which are properly capitalized under generally accepted accounting principles.

***Policy:***

1. Agencies intending to use general obligation bond proceeds to fund the capitalizable costs of staff directly involved in delivering a capital project authorized in a bonding bill must notify Minnesota Management and Budget (MMB) of their intention prior to expending any bond appropriations for that purpose.
2. Staff time expended on capital projects are required to be tracked by each individual project in a form and manner acceptable to MMB. Agencies should submit a memorandum to their Executive Budget Officer (EBO) outlining their proposed process for tracking and reporting agency staff time directly expended on completing authorized capital projects for review and approval by MMB.

***Criteria for Reporting Format:***

Reporting of staff time spent on capital projects funded from general obligation bond proceeds must reflect the following criteria:

1. Time must be tracked by each project individually.
2. Each individual recording time must be identified.
3. Time must be tracked on a daily basis.

***Policy Implementation:***

Each agency must submit a report detailing the time expended on implementing capital projects to their respective EBO on a quarterly basis. Each agency must certify that such time is properly capitalizable as a cost of the appropriate project in accordance with applicable accounting principles. EBOs shall review the reports and notify the Capital Projects Coordinator if any issues are noted. The Capital Projects Coordinator will work with the agency in question to resolve any issues that are identified. If the agency and the Capital Projects Coordinator are unable to resolve any issues, the Assistant Commissioner will make a final determination, in consultation with bond counsel as needed, as to the resolution of any issues.

Upon completion of each capital project undertaken, the agency will provide written notification to its EBO and no further reimbursement for any capitalizable costs may be made.

***Effective Date of Policy:***

This policy will be effective with bonding appropriations authorized in the 2010 legislative session. Agencies that already have explicit statutory authority for prior bond authorizations to use general obligation bond proceeds to fund the costs of staff directly involved in delivering a capital project must still submit a plan to track those costs to MMB for its review and approval prior to using any general obligation bond funds for such purposes.

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