



**Governor Mark Dayton’s
2016 Capital Budget
Recommendations**

*Money Matters 16.01
February 2016*

This paper summarizes the Capital Budget recommendations submitted to the Legislature by Governor Mark Dayton. Part one provides an overview of the capital budget recommendations. Part two provides detailed recommendations organized according to the jurisdictions of the House of Representatives’ fiscal committees.

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Fiscal Analysis Department
Minnesota House of Representatives

Capital Budget Overview

On January 15, 2016, Governor Dayton introduced his capital budget recommendations for the 2016 legislative session. State agencies submitted about \$2.6 billion in project requests for consideration, and political subdivisions requested over \$988 million in funds. Based on the requests, the Governor recommended \$1.3 billion in funding using General Obligation bonding (GO) and an additional \$85 million spending from other sources. The Governor's recommendations stemmed from state agency and local government requests. The table below highlights the requests and the Governor's recommendations.

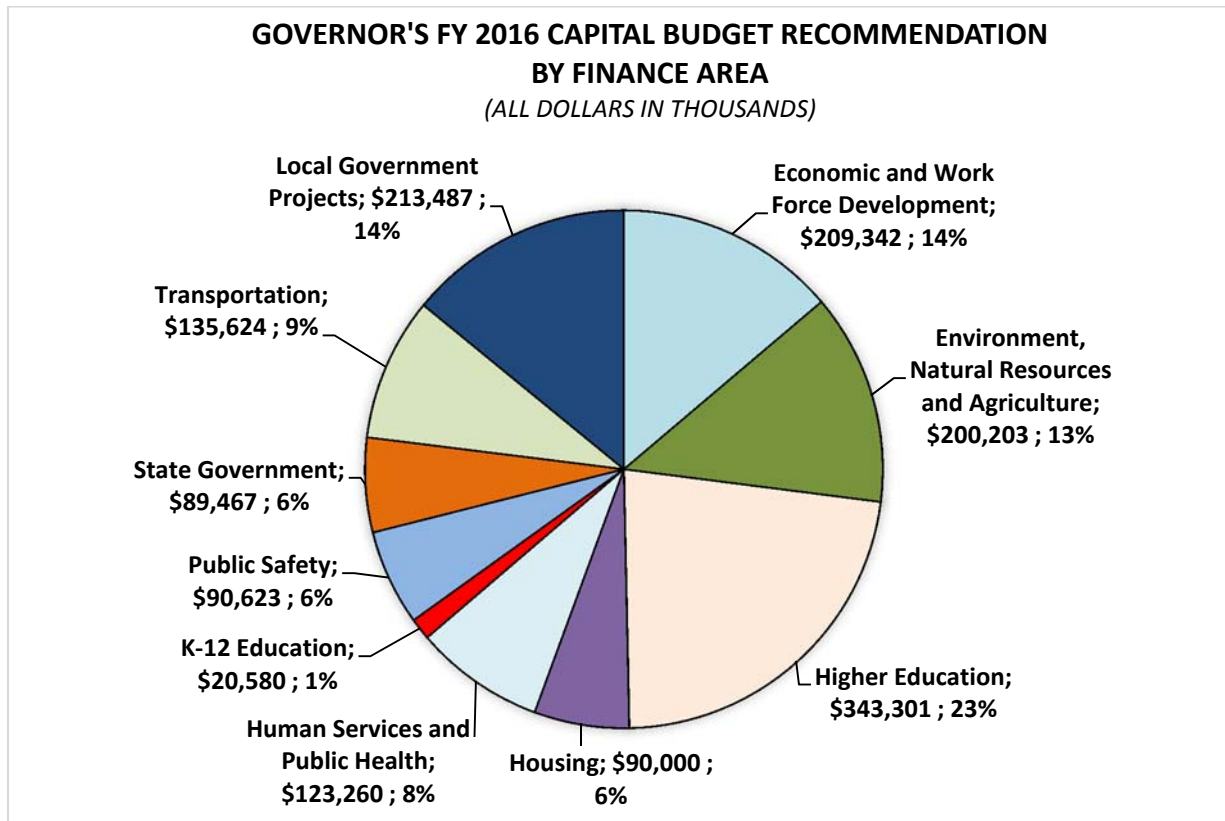
Finance Area	Agency Requests	Governor's Recs
New Projects:		
Economic and Workforce Development	\$213,342	\$209,342
Environment, Natural Resources, and Agriculture	\$523,118	\$200,203
Higher Education	\$490,693	\$343,301
Housing	\$90,000	\$90,000
Human Services and Public Health	\$113,760	\$123,260
K-12 Education	\$42,325	\$20,580
Public Safety	\$250,623	\$90,623
State Government	\$230,677	\$89,497
Transportation	\$710,124	\$135,624
Local Government Projects	\$988,676	\$213,487
Total	\$3,653,338	\$1,521,887

*Note: Figures include General Obligation bonding (GO), MnSCU user financing, Minnesota Housing Finance Agency Appropriations Bonds, State General Fund cash and Trunk Highway fund cash.

(1) State Government totals include \$1,374,000 for bond sale expenses.

Of the recommended \$1.52 billion noted above, \$946 million would be paid for with various purpose General Obligation (GO) bonds with debt service coming from the state's general fund. Other funding sources include: \$40 million in Trunk Highway fund cash for truck stations and offices used by the Minnesota Department of Transportation (MnDOT), \$70.0 million in non-profit housing bonds (supported by state general fund appropriations for debt service but issued by the Minnesota Housing Finance Agency), \$16 million in Statutory Appropriations Bonds for the Lewis and Clark water project which would cost the General Fund \$1.22 million a year for debt service, and \$36.7 million in user-financed bonds paid for by MnSCU student tuition.

The following pie chart depicts the distribution of the funds by finance area.



Debt Service Costs

Planning estimates for the 2016 bonding bill, as included in the November 2015 forecast, set aside sufficient debt service for \$800 million in GO bonding. Since the Governor recommends authorizing an additional \$503 million, his plan includes additional debt service (compared to amounts in the forecast) of about \$8 million in FY 2017, \$22.9 million in FY 2018, and \$40.2 million in FY 2019. The Governor's recommendations also include a general fund cost of \$5.6 million annually (included in the estimates above) for 20 years, beginning in 2017, for debt service for the non-profit housing bonds issued by the Minnesota Housing Finance Agency. Finally, the Governor recommends \$16 million in Statutory Appropriations bonds for the Lewis and Clark water project.

Past Authorizations

Capital budgets have varied greatly in size and composition over the last decade. The figures below show the past authorizations for GO bonding, and Trunk Highway bonding. The unissued columns represent appropriation for projects that have been authorized but are not bonded for or spent yet. The issued columns are for prior authorizations that have been spent, and the projects are either under construction or complete. As of October 2015, there was about \$634 million of authorized but unissued GO bonding, and about \$1.2 billion of authorized but unissued Trunk Highway bonding. Most of the smaller GO and Trunk Highway authorizations are for costs relating to natural disasters.

Figure 1. Issued and Unissued General Obligation Various Purpose Bonds

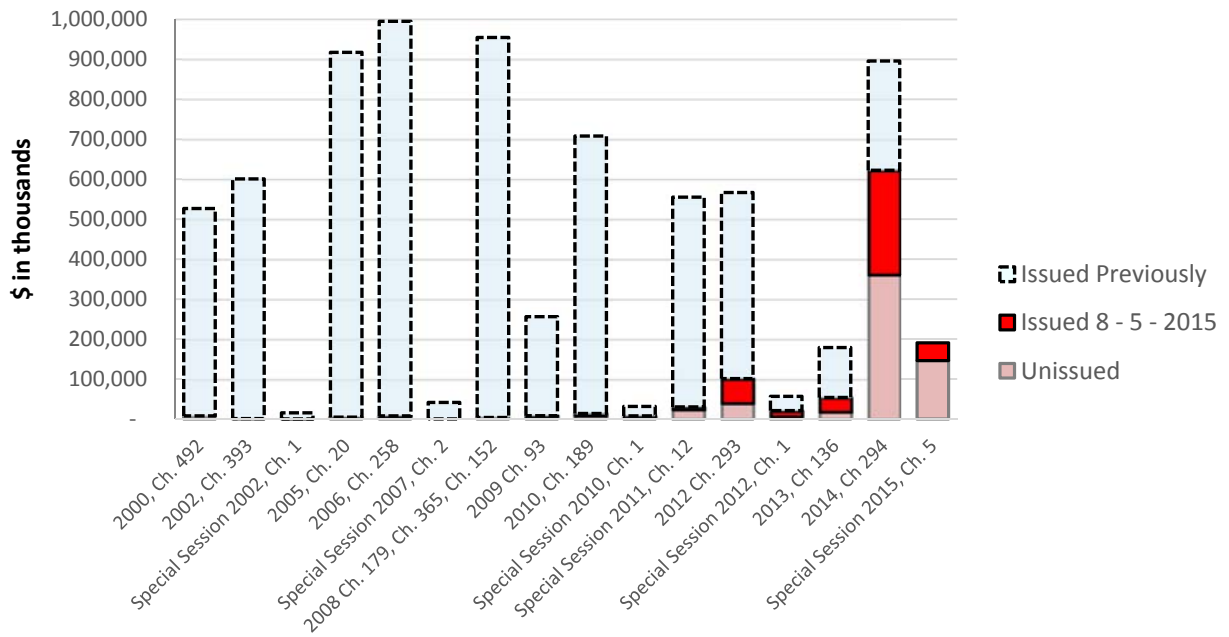
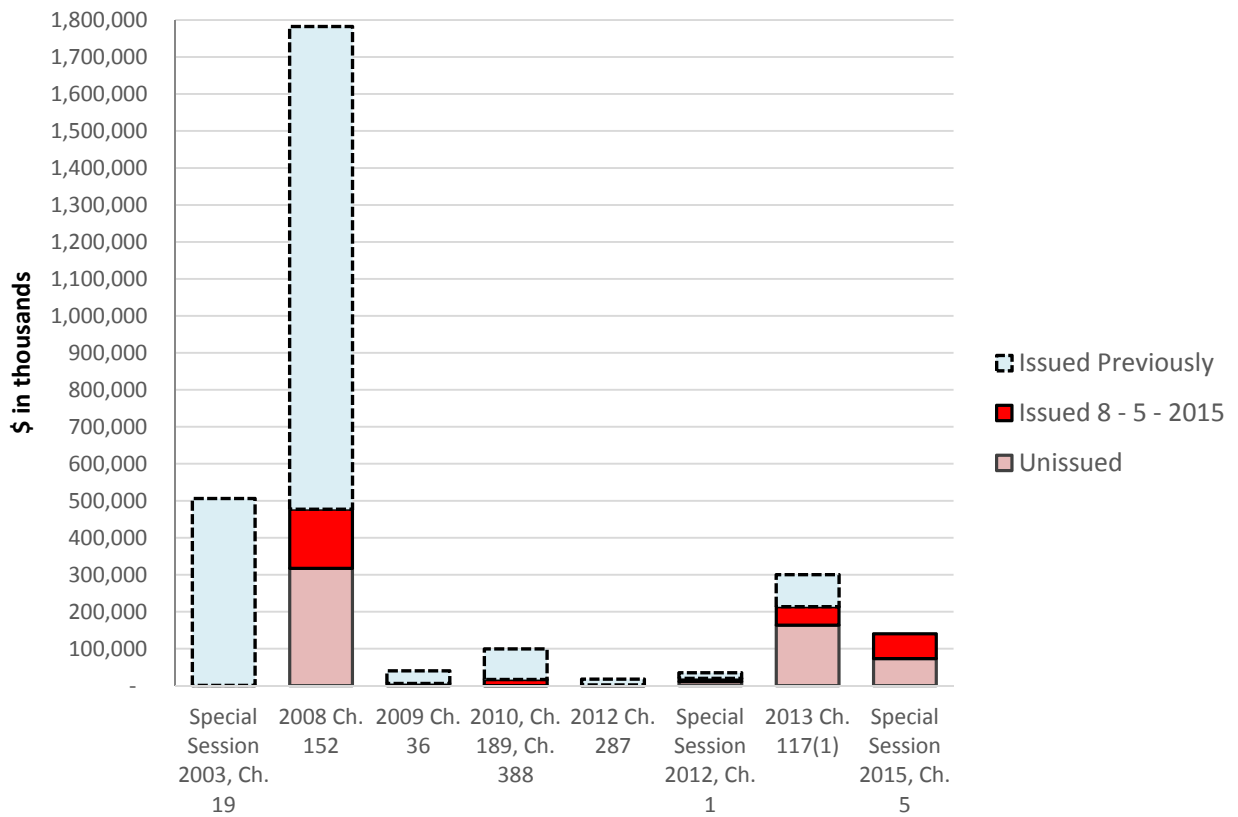


Figure 2. Issued and Unissued Trunk Highway Bonds



History of Debt Management

During the Quie, Perpich, and Carlson administrations, the Governors worked with the Department of Finance to establish a debt management policy. Several guidelines were adopted to manage debt and limit spending, including the “three percent guideline.” This rule stated that the appropriation for general fund debt service in a biennium shall not exceed three percent of non-dedicated general fund revenues in that biennium. Simply stated, up to three percent of non-dedicated general fund revenues could be used to make payments on money the state borrows, giving the state a self-imposed credit limit (i.e. the state’s debt capacity).

During 2008 and 2009, Minnesota Management and Budget (formerly the Department of Finance) began discussing the guidelines and potential revisions. These discussions stemmed from questions regarding how bond rating agencies view the state’s financial situation. In December 2009, the agency announced new guidelines:

- Guideline 1: Total tax-supported principal outstanding shall be 3.25 percent or less of total state personal income.
- 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 percent of state personal income.
- Guideline 3: 40 percent of general obligation debt shall be due within five years and 70 percent within ten years, if consistent with the useful life of the financed assets and/or market conditions.

The capacity for Guidelines 1 and 2 is calculated with every November and February budget forecasts, and are point-in-time figures.

Debt Capacity

Debt capacity is an estimation of how much the state can borrow based on its current guidelines. Based on the November 2015 forecast, Minnesota has approximately \$11 billion in total principal outstanding (both issued and authorized but unissued) for state general fund supported debt. Of this amount, \$1.2 billion in principal is authorized but unissued, leaving about \$5.9 billion in capacity for debt guideline 2. The total principal general fund supported debt outstanding was \$8.2 billion, leaving about \$1 billion in capacity for debt management guideline 1. This constitutes 3.7 percent of total general fund spending for FY 2016.

The debt management guideline 1 capacity **is not** guidance to the legislature of the maximum size of a GO bonding bill the legislature can authorize and stay below the guideline 1 limit on principal of issued tax supported debt. Under some circumstances the legislature could authorize bills larger than guideline 1 capacity, and not reach the limit immediately, or the legislature could pass a bill smaller than guideline 1 capacity, and if there was a severe recession or enough previously authorized but unissued debt moved into guideline 1, the state could still exceed the limit. In other words, guideline 1 applies to when bonds are sold, not when they are authorized by the legislature.

Bond Ratings and Borrowing Costs

Bond ratings denote the financial strength of the borrower. A highly rated bond is a safer investment but brings a lower rate of return to the investor. Because a lower bond rating signifies a riskier investment, it carries a higher rate of return for the investor.

Rating agencies look at several factors when assessing credit worthiness, such as maintaining structural balance into the future and the level of budget reserve accounts. If the ratings are downgraded due to the current fiscal outlook, future interest costs would increase and thereby impact the affordability of current and additional debt.

The state of Minnesota currently carries a Moody's "Aa1" rating, a Standard and Poor's "AA+" rating and a Fitch "AA+" rating. All of these ratings are one notch below the highest possible rating of AAA. From 1997 to 2003 the state carried this highest rating from all three rating agencies. Moody's downgraded the state's rating in 2003. Standard and Poor's and Fitch both downgraded the state's rating in 2011.

For further information on Capital Budget issues contact Andrew Lee, House Fiscal Analysis Department at 651-296-4181 or Andrew.lee@house.mn.

Education

For the 2016 Legislative session, Governor Dayton recommends eight capital projects in the Education Finance area, totaling \$40.28 million. The recommended projects are comprised of \$35.28 million in general obligation bonds and \$5.0 million in general fund cash. The total agency requests in the education area were \$47.225 million. The projects include:

Education Finance Committee		
Governor's 2016 Capital Investment Recommendations		
<i>(all dollars in thousands)</i>		
Projects by Agency	Agency Request	Governor's Recs
Education		
Red Lake School District facility improvements	\$28,015	\$14,070
Library Construction Grants	\$2,000	\$2,000
Minnesota State Academies		
Asset Preservation	\$8,000	\$2,000
Track Project	\$160	\$160
Security Corridor Design	\$50	\$50
Perpich Center for the Arts		
Asset Preservation	\$4,000	\$2,300
Department of Human Services		
Early Childhood Facilities	\$5,000	\$15,000
Early Childhood Facilities (General Fund Cash)	\$0	\$5,000
Total (not including Human Services)	\$47,225	\$20,580

Note: Not all agency requests are included, but rather, only agency requests associated with the Governor's recommendations.

Department of Education

- \$14.07 million for facility improvements at Red Lake School District, versus the Department's request for \$28.02 million. The funds would be used for projects at the Early Childhood Center and Red Lake Elementary School including classroom additions, cafeteria expansion and repurposing of some existing space.

- \$2 million for Library Construction grants. The grants help public libraries make facilities improvements that address health and safety, ADA compliance and replacement of aging infrastructure.

Minnesota State Academies

- \$2 million for asset preservation, versus the State Academy's request of \$8 million. Projects on the Academies' list for asset preservation generally fall into the code compliance and deferred maintenance categories.
- \$160,000 for a portion of the costs associated with construction of track on the grounds of the State Academy for the Blind.
- \$50,000 for pre-design of a safety corridor on the campus of the State Academy for the Deaf. It will provide a single entry point for all three academic buildings on campus to enhance security.

Perpich Center for Arts Education

- \$2.3 million for asset preservation, versus the Center's requested \$4 million. A number of health and life safety issues would be addressed.

Note: See the Human Services section of this report for a description of the Early Childhood grants.

For further information on education finance issues contact Melissa Johnson, House Fiscal Analysis Department at 651.296.4178, Melissa.Johnson@house.mn.

Environment, Natural Resources and Agriculture

The Governor's 2016 capital budget proposes general obligation bond appropriations of \$200.2 million for projects under the jurisdiction of the Environment and Natural Resources Policy and Finance and the Agriculture Finance Committees.

Environment, Natural Resources and Agriculture Finance Committees			
Governor's 2016 Capital Investment Recommendations			
<i>(all dollars in thousands)</i>			
Projects by Agency	Agency Request	Governor's Recs	
Agriculture Department			
Rural Finance Authority Loans	\$ 35,000	\$	35,000
Laboratory Capital Equipment	\$ 2,218	\$	2,218
Department of Natural Resources			
Asset Preservation	\$ 80,000	\$	33,000
Buildings and Facilities Development	\$ 10,000	\$	2,000
Flood Hazard Mitigation	\$ 15,000	\$	3,500
Mille Lacs Lakes Fisheries Management Station	\$ 3,500	\$	3,500
Dam Repair/Reconstruction/Removal	\$ 10,000	\$	7,000
Reforestation and Stand Improvement	\$ 6,000	\$	2,000
Native Prairie Bank Acquisition and Development	\$ 8,000	\$	2,000
Itasca State Park Renovation	\$ 10,000	\$	3,000
WMA/AMA Acquisition & Development-Pheasant Action Plan	\$ 20,000	\$	9,500
State Park Campground Renovations	\$ 7,000	\$	1,000
Park, State Recreation Area and Trail Development	\$ 14,000	\$	2,000
Fish Hatchery Enhancements	\$ 5,500	\$	1,000
Scientific and Natural Areas Acquisition and Development	\$ 5,800	\$	1,000
RIM Critical Habitat Match	\$ 3,000	\$	2,000
Pollution Control Agency			
St. Louis River Area of Concern	\$ 12,705	\$	12,705
Closed Landfill Construction-(WDE) Landfill	\$ 12,000	\$	12,000
Board Of Water and Soil Resources			
Reinvest in Minnesota (RIM)	\$ 75,000	\$	30,000
Local Government Roads Wetlands Replacement	\$ 10,330	\$	5,000

Environment, Natural Resources and Agriculture Finance Committees
Governor's 2016 Capital Investment Recommendations

(all dollars in thousands)

Projects by Agency	Agency Request	Governor's Recs
Minnesota Zoological Gardens		
Heart of the Zoo-II	\$ 17,780	\$ 17,780
Asset Preservation	\$ 11,500	\$ 4,000
Metropolitan Council Parks (and Water)		
Metropolitan Regional Parks	\$ 11,000	\$ 5,000
Inflow and Infiltration Grants*	\$ 6,000	\$ 4,000
Total	\$ 391,333	\$ 200,203

Note: Not all agency requests are included, but rather, only agency requests associated with the Governor's recommendations.

Department of Agriculture

- **Rural Finance Authority loans** - \$35 million in user financed bonds for the Rural Finance Authority (RFA). In partnership with agricultural lenders this program helps to provide low-cost financing to farm owners. The RFA portion of the loan is carried at a reduced interest rate to improve the cash flow of eligible farmers.
- **Laboratory Capital Equipment** - \$2.218 million from the general fund to replace lab equipment at the Department of Agriculture's laboratory. This appropriation will replace non-bond eligible equipment that has reached the end of its useful life.

Department of Natural Resources

- **Asset Preservation** - \$33 million is recommended for repairs, renovations and improvements to DNR buildings and facilities. These funds will be used on a variety of assets including: buildings, trails, roads, bridges, public water accesses, and water control structures.
- **Buildings and Facilities Development** - \$2 million is recommended to replace or build new facilities to consolidate DNR offices or to provide additional storage buildings for DNR equipment and for the predesign of anticipated facility realignment.
- **Flood Hazard Mitigation Grant Assistance Program** - \$3.5 million is for grants to purchase and remove damaged and at-risk residential structures from the floodplain, construct levees, water control structures and multi-purpose flood impoundments.

- **Mille Lacs Lake Fisheries Management Station** - \$3.5 million is for construction of a multi-purpose facility for office, laboratory, fish hatchery and education/outreach space located near Mille Lacs Lake to better address the needs of the lake and surrounding area.
- **Dam Repair/Reconstruction/Removal** - \$7 million is recommended for repair, reconstruction, or removal of dams, and the response to dam safety emergencies. This funding will provide matching grants to local governments for dam repair and reconstruction.
- **Reforestation and Stand Improvement** - \$2 million is recommended for reforestation and stand improvement on state lands including state forest lands, wildlife management areas and school trust lands. Funding is provided for preparation of sites, planting and seeding, protection of seedlings, and for stand improvement practices such as removing unhealthy trees.
- **Native Prairie Bank Acquisition and Development** - \$2 million is recommended for acquiring conservation easements on privately owned native prairie through the Native Prairie Bank Program and to develop additional acres of NPB to serve as a buffer and improve the viability native plant species.
- **Itasca State Park Renovation** - \$3 million is to renovate degraded buildings and other infrastructure, restore natural resources, increase public accessibility and offset energy use.
- **WMA/AMA Acquisition and Development-Pheasant Action Plan** - \$9.5 million is for acquisition of lands for addition to the state wildlife management area and aquatic management area programs. Acquisitions will be focused on the prairie landscape region of the state.
- **State Park and Campground Renovations** - \$1 million is for renovations at state campgrounds in order to meet ADA, code, safety and accessibility standards as well as reducing operating costs through improvements to water, wastewater and electrical services.
- **State Park, State Recreation Area and Trail Development** - \$2 million is recommended to acquire key park and trail parcels, develop parks and trails and develop new recreational opportunities.
- **Fish Hatchery Enhancement** - \$1 million is recommended for improvements to DNR's fish hatchery facilities, including upgrades to control fish pathogens and invasive species; improvements to the rearing pond access areas and raceway covers; upgrades to water systems and equipment and drainable ponds; construction of fish holding facilities; and energy efficiency and production capacity upgrades.
- **Scientific and Natural Area Acquisition and Development** - \$1 million is to acquire and develop lands in the Scientific and Natural Area program across the state. These funds will be used to permanently protect and provide access to landscapes with important biological biodiversity and to help retain rare species, communities and landscapes.

- **RIM critical habitat match** - \$2 million is recommended to be used to match private donations of cash and land, to fund the cost of acquiring and improving fish, wildlife and native plant habitats for the Reinvest in Minnesota program.

Pollution Control Agency

- **St. Louis River Area of Concern (SLRAOC)** - \$12.705 million is recommended for the cleanup of contaminated sediments at multiple locations in the St. Louis River Estuary. These funds will help to remove the areas of the river are harbor from the impaired waters list.
- **Closed Landfill Construction: Waste Disposal Engineering (WDE) Landfill** - \$12 million is recommended to design and construct a partial replacement of the Waste Disposal Engineering Landfill. The landfill was used for hazardous waste and is currently leaking and contaminating the groundwater.

Minnesota Zoological Gardens

- **Heart of the Zoo II** - \$17.78 million is recommended for the Heart of the Zoo II project including revitalization of the main entrance and building. The funds would also include renovation of the snow monkey exhibit and surrounding spaces, and the construction of a new meerkat exhibit.
- **Asset preservation** - \$4 million is recommended for asset preservation projects at the Zoo.

Metropolitan Council Parks (water)

- **Metropolitan Regional Parks** - \$10 million is recommended to match \$7.33 million of Metropolitan Council bonds to improve and expand the Metropolitan Regional Park System.
- **Inflow and Infiltration Grants** - \$5 million is recommended for grants to metropolitan area cities to correct inflow and infiltration problems in their municipal wastewater collection systems.

For further information on Agriculture finance issues contact Ken Savary, House Fiscal Analysis Department at 651.296.7171, ken.savary@house.mn.

For further information on Environment and Natural Resources finance issues contact Brad Hagemeyer, House Fiscal Analysis Department at 651.296.7165, brad.hagemeyer@house.mn

Health & Human Services

The Governor's capital budget recommendations for the Department of Health and the Department of Human Services include eight requests totaling \$123.3 million.

Human Services Finance		
Governor's 2016 Capital Investment Recommendations		
<i>(all dollars in thousands)</i>		
Projects by Agency	Agency Request	Governor's Recs
Health		
Public Health Lab Capital Equipment - General Fund	\$ 2,869	\$ 2,335
Total Health:	\$ 2,869	\$ 2,335
Human Services		
MN Security Hospital - Phase 2	\$ 70,255	\$ 70,255
MSOP (St. Peter) - Phase 2	\$ 14,500	\$ 14,500
MSOP - Less Restrictive Alternatives	\$ 12,420	\$ 12,420
Anoka Metro Regional Treatment Center: Safety And Security	\$ 2,250	\$ 2,250
Early Childhood Facilities	\$ 5,000	\$ 15,000
Early Childhood Facilities - General Fund	\$ -	\$ 5,000
System-wide Asset Preservation	\$ 7,000	\$ 1,500
Total Human Services:	\$ 111,425	\$ 120,925
Total	\$ 114,294	\$ 123,260

Note: Not all agency requests are included, but rather, only agency requests associated with the Governor's recommendations.

Health

- **Public Health Lab Capital Equipment:** \$2.3 million from the General Fund to purchase new laboratory equipment which is not bondable. This will replace existing equipment that is beyond its useful life.

Human Services

The Governor Recommends \$120.925 million for 7 projects:

- **Minnesota Security Hospital – Phase 2:** \$70.3 million in GO bonds to renovate existing living units and to construct new acute care and transitional housing units.
- **Minnesota Sex Offender Program (St. Peter) – Phase 2:** \$14.5 million in GO bonds for renovation of facilities at the St Peter MSOP facility to provide 30 additional beds for their Community Preparation Services program which gets MSOP clients ready to move outside of the MSOP secure environment.
- **Minnesota Sex Offender Program – Less Restrictive Alternatives:** \$12.4 million in GO bonds to design and construct two residential facilities for MSOP clients. These facilities, at sites yet to be determined, would be located outside of MSOP’s two existing secure sites (St. Peter & Moose Lake). They would serve as less restrictive alternatives to the existing secure locations.
- **Anoka Metro Regional Treatment Center – Safety and Security Renovations:** \$2.3 million in GO bonds for cameras, safety upgrades and developing secure outdoor activity areas for the AMRTC facility.
- **Early Childhood Facilities:** \$15 million in GO bonds for grants to political subdivisions. These grants would be used to renovate or construct facilities owned by the state or a political subdivision and used for programs such as Head Start, School Readiness, Early Childhood Family Education or licensed child care programs and must be matched by a 50 percent non-state contribution.
- **Early Childhood Facilities – General Fund:** \$5 million from the General Fund to expand the program to non-profit entities. The purposes and requirements would be the same as for bonded projects in the item above. General Fund spending would be more flexible on what it is spent on that GO bonding.
- **System-wide Asset Preservation:** \$1.5 million in GO bonds for human services system-wide asset preservation projects.

For further information on Health and Human Services related topics, contact Doug Berg, House Fiscal Analysis at 651-296-5346 or doug.berg@house.mn

Higher Education

The Governor's 2016 capital budget recommendations include general obligation (GO) bond appropriations of \$343.3 million for projects under the jurisdiction of the Higher Education Committee. MN State Colleges and Universities (MnSCU) would receive \$190.1 million in GO bond funds under his proposal, and the University of Minnesota would receive \$118.7 million in GO bond funds. Of the amount recommended for MnSCU, \$36.7 million will be user-financed (UF).

Higher Education Finance Committee		
Governor's 2016 Capital Investment Recommendations		
<i>(all dollars in thousands)</i>		
Projects by Agency	Agency Request	Governor's Recs
University of Minnesota		
HEAPR	\$ 100,000	\$ 55,000
Chemical Sciences and Advanced Materials Building	\$ 27,167	\$ 27,167
Health Sciences Education Facility	\$ 66,667	\$ 66,667
Plant Growth Research Facility	\$ 4,400	\$ 4,400
MN State Colleges and Universities (MnSCU)		
HEAPR	\$ 110,000	\$ 80,000
North Mankato - STEM and Healthcare Reno	\$ 8,600	\$ 8,600
Fergus Falls - Center for Student Success	\$ 978	\$ 978
Wadena - Library and Student Development Reno	\$ 820	\$ 820
East Grand Forks - Laboratory Renovation	\$ 826	\$ 826
Bemidji State - Academic Learning Center	\$ 18,097	\$ 18,097
Rochester - Memorial/Plaza Halls Demo/Design	\$ 20,385	\$ 20,385
Hibbing - Campus Rightsizing	\$ 9,958	\$ 9,958
Winona State - Education Village Phase II	\$ 25,306	\$ 25,306
St. Cloud State - Student Health & Academic Reno	\$ 18,572	\$ 18,572
Mankato State - Clinical Sciences Phase II	\$ 6,525	\$ 6,525
Total	\$ 490,693	\$ 343,301

Note: Not all agency requests are included, but rather, only agency requests associated with the Governor's recommendations.

The following is a summary by agency of the higher education capital projects recommended by the Governor for funding in the 2016 session.

University of Minnesota

- **Asset Preservation (HEAPR)** - The Governor recommends \$55 million be invested to improve upon physical assets on all of the University's campuses.
- **Chemical Sciences and Advanced Materials Building** - The Governor recommends \$27.167 million to be used to construct a science and engineering building on the Duluth campus. The new building will contain research laboratories, instructional classrooms and administrative space.
- **Health Sciences Education Facility** - \$66.667 million is recommended to design, construct, renovate, equip and furnish education facilities to meet the needs of the Medical School and Academic Health Center.
- **Plant Growth Research Facility** - \$4.4 million is recommended to construct an addition to the plant growth facilities on the St. Paul campus and to demolish the existing green houses.

Minnesota State Colleges and Universities

- **Asset Preservation (HEAPR)** - The Governor recommends \$80 million in GO bonds for system-wide asset preservation which is also referred to as higher education asset preservation and replacement (HEAPR). The money will be spread among all of the agency's campuses. The HEAPR funding is the only MnSCU recommendation that does not require any UF monies.
- **North Mankato South Central College** - This recommendation is for \$8.6 million to renovate existing space to create multipurpose lab rooms related to science, technology, engineering and math (STEM).
- **Fergus Falls Minnesota State CTC** - \$978,000 is recommended to be used for the renovation of existing space to create a new Center for Student and Workforce Success. This renovation will integrate the Regional Workforce Center into the campus allowing students access to broad range of workforce support.
- **Wadena Minnesota State CTC** - This school received a recommended amount of \$820,000 to relocate the Wadena campus library and convert the newly vacant space into a student service center.
- **East Grand Forks Northland CTC** - This recommendation is \$826,000 for the renovation of laboratory space.

- **Bemidji State University** - The recommendation is to spend \$18.097 million to replace Hagg-Sauer Hall with a new Academic Learning Center as well as renovate five other campus buildings to better align teaching space with modern instructional methods.
- **Rochester CTC** - The Governor recommends \$20.385 million to renovate and expand outdated classroom and office space. The result will be more efficient learning space adaptable to current learning strategies.
- **Hibbing Community College** - The Governor recommends \$9.958 million to reorient and simplify campus circulation. Additional renovations will create flexible classroom space as well as a space for Advanced Minnesota-Northeast Higher Education District's regional training program.
- **Winona State University** - Governor Dayton recommends \$25.306 million for Phase II of the Education Village Project. The Phase II renovations will substantially improve delivery of the College of Education's curriculum.
- **St. Cloud State University** - \$18.572 million is recommended to renovate unused space to co-locate academic and health related programs. The project will also create a consolidated student health center.
- **Minnesota State University, Mankato** - The Governor recommends spending \$6.525 million to renovate and repurpose space recently vacated by programs moving to the Clinical Sciences building funded in the 2014 bonding bill.

For further information on Higher Education finance issues contact Ken Savary, House Fiscal Analysis Department at 651.296.7171, ken.savary@house.mn

Job Growth & Energy Affordability Policy and Finance

I. STATE AGENCY PROJECTS

The Governor's 2016 capital budget recommendations include ten projects for the state agencies under the jurisdiction of the Job Growth & Energy Affordability Policy and Finance Committee. The total recommended spending is \$229.3 million in General Obligation (GO) bonds and \$70 million in Appropriation (AP) bonds, for a total of \$299.3 million.

Job Growth & Energy Affordability Policy and Finance Governor's 2016 Capital Investment Recommendations State Agencies Projects <i>(all dollars in thousands)</i>			
Projects by Agency	Fund	Requested	Governor's Recs
Employment & Economic Development (DEED)			
Asset Preservation: S Minneapolis Workforce Center	GO	\$ 1,342	\$ 1,342
Transportation Economic Development Program	GO	\$ 40,000	\$ 10,000
Greater MN Business Development Public Infrastructure	GO	\$ 15,000	\$ 21,000
Innovative Business Development Infrastructure	GO	<u>\$ 15,000</u>	<u>\$ 5,000</u>
<i>Subtotal DEED</i>	<i>GO</i>	<i>\$ 71,342</i>	<i>\$ 37,342</i>
MN Housing Finance Agency (MHFA)			
Housing Infrastructure Bonds	AP	\$ 70,000	\$ 70,000
Public Housing Rehabilitation	GO	<u>\$ 20,000</u>	<u>\$ 20,000</u>
<i>Subtotal MHFA</i>	<i>AP/GO</i>	<i>\$ 90,000</i>	<i>\$ 90,000</i>
Iron Range Resources and Rehabilitation Board (IRRRB)			
Giants Ridge Aerial Lift	GO	\$ 5,000	\$ 5,000
Public Facilities Authority (PFA)			
Water Infrastructure Initiative: State Matching Funds for U.S. EPA Grants	GO	\$ 17,000	\$ 25,000
Water Infrastructure Initiative: Wastewater Infrastructure Fund	GO	\$ 50,000	\$ 80,000
Water Infrastructure Initiative: Point Source Implementation Grants	GO	<u>\$ 62,000</u>	<u>\$ 62,000</u>
<i>Subtotal PFA</i>	<i>GO</i>	<i>\$ 129,000</i>	<i>\$ 167,000</i>
Total GO Bonding requests	GO	\$ 225,342	\$ 229,342
Total AP Bonding requests	AP	<u>\$ 70,000</u>	<u>\$ 70,000</u>
Total		\$ 295,342	\$ 299,342

Note: Not all agency requests are included, but rather, only agency requests associated with the Governor's recommendations.

Department of Employment and Economic Development - \$37.3 million

- **Asset Preservation: South Minneapolis Workforce Center - \$1.342 million** for repairs, preservation, and renovation of the South Minneapolis Workforce Center, including the building's roof.
- **Transportation Economic Development (TED) - \$10 million** for a competitive grant program that provides up to 70 percent of the transportation and public infrastructure costs associated with economic development projects. TED is a joint effort of DEED and the Minnesota Department of Transportation.
- **Greater MN Business Development Public Infrastructure (BDPI) - \$21 million** for grants to Greater Minnesota cities to assist with funding public infrastructure projects that to support economic development. Eligible public infrastructure projects would include sewers, streets and utility extensions. The grants will be awarded on a competitive basis, and can provide funding up to 50 percent for eligible costs, with a local match required.
- **Innovative Business Development Infrastructure (IBDPI) - \$5 million** for grants to local governments statewide for public infrastructure costs related to innovative, high tech, bio, and medical technology business development investments. The funds are used for publicly owned infrastructure. A 50 percent local match is required.

Minnesota Housing Finance Agency - \$90 million

- **Housing Infrastructure Bonds (Appropriation Bonds) - \$70 million.** Specifically, the Governor is recommending a standing general fund appropriation of \$5.6 million per year for 20 years beginning in FY 2017. The appropriation will provide the debt service needed to fund \$70 million in bonds that will be issued by MHFA. The bonds will allow MHFA to construct or acquire and rehabilitate permanent supportive housing, to acquire and rehabilitate federally subsidized rental housing, and to acquire and rehabilitate foreclosed properties.
- **Public Housing Rehabilitation (General Obligation Bonds) - \$20 million** to rehabilitate public housing units owned and operated by local public housing authorities. Funds are allocated statewide on a competitive basis.

Iron Range Resources and Rehabilitation Board - \$5 million

- **Giants Ridge Aerial Lift - \$5 million** for a high speed areal lift replacement, including dismantling the existing lift and the construction of a new one.

Public Facilities Authority - \$167 million

- **Water Infrastructure Initiative: State Matching Funds for U.S. EPA Grants - \$25 million** to provide the required 20 percent state match for estimated federal FY 2017-18 capitalization grants from the Clean Water Revolving Fund and the Drinking Water Revolving Fund. Funds will be used for low interest loans to local governments for clean water and drinking water infrastructure projects.
- **Water Infrastructure Initiative: Wastewater Infrastructure Fund – \$80 million** for grants to municipalities with high costs wastewater projects on the MN Pollution Control Agency’s project priority list. Grants supplement low-interest loans from the PFA’s Clain Water Revolving Fund or match funding from the U.S. Department of Agriculture Rural Development
- **Water Infrastructure Initiative: Point Source Implementation Grants - \$62 million** to provide grants to help cities pay for treatment plant upgrades to address water quality restoration and protection goals.

II. LOCAL GOVERNMENT PROJECTS

Local governments submitted 144 bonding requests for possible inclusion in the Governor’s bonding recommendations. The total requested dollar amount was \$988.7 million.

The Governor is recommending that twenty local government bonding projects be funded by the 2016 Legislature. The twenty projects total \$213.5 million.

Jobs & Economic Development Finance
Governor's 2016 Capital Investment Recommendations
Local Government Projects
(all dollars in thousands)

Projects by Local Government	Request	Governor's Recs
Arrowhead Regional Corrections – NERCC Vocational Programming Improvements	\$ 2,853	\$ 2,853
City of Bemidji – Regional Dental Facility, Bemidji	\$ 6,000	\$ 6,000
Duluth Airport Authority – Runway Construction and Realignment Project*	\$ 5,274	\$ 5,274
City of Duluth – Duluth Energy Systems – Superior Street steam to hot water conversion project	\$ 21,000	\$ 21,000
City of Grand Rapids – Mississippi River Pedestrian Bridge	\$ 750	\$ 750
Hennepin County – Regional Medical Examiner’s Facility	\$ 25,932	\$ 25,932
International Falls – Koochiching County Airport Commission – Airline Terminal Construction Project	\$ 3,000	\$ 3,000
Lewis & Clark Water System - Lewis and Clark Joint Powers Board**	\$ 0	\$ 16,000
City of Minneapolis – 10 th Avenue SE Bridge over the Mississippi River Concrete Arch Rehabilitation	\$ 31,875	\$ 31,875
City of Minneapolis – Emergency Operations Training Facility (EOTF) Enhancement	\$ 2,500	\$ 2,500
Polk County – North Country Food Bank	\$ 3,000	\$ 3,000
Ramsey County – Battle Creek Winter Recreation	\$ 2,135	\$ 2,135
Ramsey County Regional Rail Authority – Union Pacific/BNSF Grade Separation	\$ 1,000	\$ 1,000
City of Red Wing – Red Wing River Town Renaissance	\$ 4,480	\$ 4,000
City of Rochester – Rochester International Airport Customs and Border Patrol Improvements and Other Airport Improvements*	\$ 4,985	\$ 4,985
City of St. Paul – Kellogg-Third Street Bridge Reconstruction	\$ 47,875	\$ 42,920
City of St. Paul – Como Zoo Habitat Preservation Exhibit Renovation	\$ 14,500	\$ 14,500
City of St. Paul – Dorothy Day Revision Phase 2	\$ 12,000	\$ 12,000
City of St. Paul – Science Museum of Minnesota Building Preservation	\$ 13,000	\$ 13,000
City of Two Harbors – Two Harbors Small Craft Harbor Facility	\$ 763	\$ 763
Total	\$ 202,922	\$ 213,487

Note: This table does not include local projects not recommended by the Governor.

* The Governor’s recommendation is to fund these projects from the State Airport Fund.

** The Governor’s recommendation is to fund this project with Appropriation Bonds.

Arrowhead Regional Corrections – NERCC Vocational Programming Improvements - \$2.853 million for the revitalization and enhancement of the buildings that support vocational and educational programming at the Northeast Regional Corrections Center (NERCC). The total project cost is estimated at \$2.85 million.

City of Bemidji – Regional Dental Facility - \$6 million to construct a new, larger community clinic facility for Northern Dental Access Center, to be located in Bemidji, MN. Total project cost is estimated at \$9 million.

Duluth Airport Authority – Runway Reconstruction and Realignment Project - \$5.274 million for design and construction of two existing runways and associated taxiways. The total project cost is \$52.738 million.

City of Duluth – Duluth Energy Systems – Superior Street steam to hot water conversion project - \$21 million to design, construct, and implement major energy efficiency improvements to the City of Duluth’s steam facility and distribution system. The total project cost is \$42 million.

City of Grand Rapids – Mississippi River Pedestrian Bridge - \$750,000 to assist in the design and construction of the Mississippi River Pedestrian Bridge located in Grand Rapids, MN. The total project cost is \$1.5 million

Hennepin County – Regional Medical Examiner’s Facility - \$25.932 million to construct a 67,000 square foot regional, state-of-the-art medical examiner’s facility for Dakota, Hennepin, and Scott Counties with the flexibility to accommodate future partner counties and agencies. The total project cost is approximately \$51.115 million.

International Falls – Koochiching County Airport Commission - \$3 million to complete Phase II of the Airline Terminal Construction Project. The total project cost Phase II is 4.5 million.

Lewis & Clark Water System - Lewis and Clark Joint Powers Board - \$16 million to complete phase III of the pipeline, which will bring water to Worthington and complete the water system project. The total cost of phase III is \$19 million.

City of Minneapolis – 10th Avenue SE Bridge over the Mississippi River Concrete Arch Rehabilitation - \$31.875 million for design and full rehabilitation of the 10th Avenue SE Bridge. The total project cost is \$48.1 million.

City of Minneapolis – Emergency Operations Training Facility (EOTF) Enhancement – 2.5 million to develop a multi-agency public safety training site for rail response, gas and electrical emergencies, technical rescues, and tactical law enforcement. The total project cost is \$5 million.

Polk County – North County Food Bank - \$3 million to acquire land, design, construct and furnish a new facility for North Country Food Bank in Crookston, Minnesota. The total project cost is \$6.527 million.

Ramsey County – Battle Creek Winter Recreation - \$3 million to implement a permanent snow-making system for cross-country and downhill skiing, tubing and sledding at Battle Creek Regional Park in St. Paul. The total project cost is \$4.271 million.

Ramsey County Regional Rail Authority – Union Pacific/BNSF Grade Separation - \$1 million for environmental analysis and design of capital improvements associated with grade separation of Union Pacific and BNSF track between Westminster Junction and Division Street/Hoffman Interlocking. The total cost of the project is \$1.5 million.

City of Red Wing – Red Wing River Town Renaissance - \$4 million to construct a levee dock at the Red Wing port, improve access between the dock and downtown Red Wing, reconfigure and improve the levee promenade, finish the replacement of the small boat harbor retaining wall, and renovate the Performing Arts Center in the city of Red Wing. The total project cost is \$8 million.

City of Rochester – Rochester International Airport Customs and Border Patrol Improvements and Other Airport Improvements - \$4.985 million to make improvements that will allow the Rochester International Airport to meet updated U.S. Customs requirements to accommodate international flights. The total cost of the project is \$10.5 million.

City of St. Paul – Kellogg-Third Street Bridge Reconstruction - \$42.92 million to replace the structurally deficient Kellogg Boulevard Bridge over Interstate 94 and multiple railways. The total cost of the project is \$59.4 million.

City of St. Paul - Como Zoo Habitat Preservation Exhibit Renovation - \$14.5 million to design and construct the renewal of the seals and sea lions exhibit at the Como Zoo. The total cost of the project is \$15.6 million.

City of St. Paul – Dorothy Day Revision Phase 2 - \$12 million to acquire land, design, construct, furnish, and equip the Dorothy Day Connection and Opportunity Center. This facility will provide supportive mental and chemical health services, job training, meals and other resources to people experiencing homelessness. The total cost of the project is \$35.7 million.

City of St. Paul – Science Museum of Minnesota Building Preservation - \$13 million to repair interior and exterior water-damage and fix latent building design defects at the Science Museum of Minnesota. The total cost of the project is \$26 million.

City of Two Harbors – Two Harbors Small Craft Harbor Facility - \$763,000 to design improvements to the small craft harbor on Lake Superior within the City of Two Harbors. The total project cost is \$908,000.

If you have any questions on Job Growth & Energy Affordability Policy and Finance Committee related issues, please contact Henriët Hendriks, House Fiscal Analysis Department, at henriet.hendriks@house.mn or 651-296-4162.

Public Safety

For the 2016 Capital Budget, Governor Dayton recommends \$90.6 million in projects under the jurisdiction of the House Public Safety and Crime Prevention committee. Projects were recommended for the Agencies of the Department of Corrections (\$53.8 million) and the Department of Public Safety (\$36.8 million). The table below shows the spending recommended by the Governor.

Public Safety and Crime Prevention			
Governor's 2016 Capital Investment Recommendations			
<i>(all dollars in thousands)</i>			
Projects by Agency		Agency Request	Governor's Recs
Department of Corrections			
Asset Preservation	\$	30,000	\$ 20,000
St Cloud Intake, Health Svcs.,and Loading Dock	\$	19,000	\$ 19,000
Rush City Expansion	\$	141,500	\$ -
Willow River Challenge Incarceration Expansion	\$	1,500	\$ 1,500
Togo Challenge Incarceration Expansion	\$	2,000	\$ 2,000
Lino Lake Building E Renovation	\$	5,000	\$ 5,000
St Cloud Perimeter Wall Repair	\$	4,400	\$ 4,400
Moose Lake Control Room Renovation	\$	1,900	\$ 1,900
Department Wide Steam and Gas Meters	\$	8,500	\$ -
Department of Public Safety			
Emergency Operations Center	\$	33,302	\$ 33,302
Oil Train Derailment Training Facility	\$	3,521	\$ 3,521
Total	\$	250,623	\$ 90,623

Note: Not all agency requests are included, but rather, only agency requests associated with the Governor's recommendations.

Department of Corrections

- \$2 million to expand the Challenge Incarceration Program in Togo. This appropriation will increase capacity for a program that allows for early release of inmates that complete a boot-camp style program.
- \$5 million to renovate a vacant building at the Lino Lakes Correctional Facility. The project will add 60 beds of capacity at the facility.

- \$4.400 million repairs to the perimeter wall at the St. Cloud prison.
- \$1.9 million for improvements to the master control room at the Moose Lake prison.
- \$20 million for general agency-wide asset preservation.
- \$19 million for the second phase of a project at St Cloud prison. The money will complete a project to expand health services and increase security through the loading dock.
- \$1.5 million to expand the Willow River Challenge Incarceration Program. Another early release boot-camp style program, the project will increase capacity by 45 beds at the facility.

Not included in Governor Dayton's budget was any funding to increase bed capacity at Rush City. The agency had requested \$141.5 million to increase beds and build new housing at the facility due to lack of beds and a growing inmate population. The Governor does include the expansion for Challenge Incarceration programs which allow for early release at the successful completion of a boot-camp style program. The expansion of the program should put downward pressure on inmate populations, however it is unclear if this will be enough to prevent the need for additional bed space in the near future or if the Governor will have additional recommendations in his operating budget to address the problem.

Department of Public Safety

Governor Dayton recommended two projects for the Department of Public Safety including:

- \$33.3 million for a new Emergency Operations Center. DPS feels the current control center that is activated during times of emergency, is inadequate and needs a newly equipped center to replace the current facility.
- \$3.5 million to equip a training center at Camp Ripley to train first responders how to deal with oil train derailment emergencies as well as major gas leaks and spills of petro chemical.

Other

Three other local projects related to public safety are included and summarized in the Grants to Political Subdivisions section of this paper. These local projects include an Arrowhead Regional Corrections Center project, an Emergency Operations Training Facility in Minneapolis, and a Rochester International Airport Customs and Border Patrol improvements project.

For further information on Public Safety finance issues contact John Walz, House Fiscal Analysis Department at 651.296.8236, John.Walz@house.mn.

State Government

Governor Dayton recommends fifteen capital projects, totaling \$88.1 million, out of a total of \$171.4 million requested by agencies under the jurisdiction of the State Government Finance committee.

State Government Finance		
Governor's 2016 Capital Investment Recommendations		
<i>(all dollars in thousands)</i>		
Projects by Agency	Agency Request	Governor's Recs
Administration		
Centennial Parking Ramp Structural Repairs	\$ 10,878	\$ 10,878
Visitor and Staff Parking Facilities	\$ 66,676	\$ 6,000
Capital Asset Preservation & Replacement Account	\$ 7,500	\$ 2,500
Capitol Complex Monuments / Memorials Repairs	\$ 3,515	\$ 350
Agency Relocation	\$ 1,500	\$ 1,500
Total Administration:	\$ 90,069	\$ 21,228
MN Amateur Sports Commission (MASC)		
National Sports Center Field Expansion	\$ 5,082	\$ 5,082
National Sports Center Asset Preservation	\$ 850	\$ 500
Total MASC:	\$ 5,932	\$ 5,582
MN Historical Society		
Historic Fort Snelling Visitor Center	\$ 34,000	\$ 34,000
Historic Sites Asset Preservation	\$ 5,755	\$ 2,500
Total MN Historical Society	\$ 39,755	\$ 36,500
Military Affairs		
West St. Paul National Guard Readiness Center	\$ 4,500	\$ 4,500
St. Cloud Facility Batch and Construction	\$ 3,500	\$ 3,500
Asset Preservation	\$ 7,185	\$ 2,500
Total Military Affairs:	\$ 15,185	\$ 10,500
MN.IT		
Repurpose State Data Center Into Usable Office Space	\$ 1,432	\$ 1,432
Total MN.IT:	\$ 1,432	\$ 1,432
Veterans Affairs		
Asset Preservation	\$ 11,209	\$ 5,000
Minneapolis Home Truss Bridge Project	\$ 7,851	\$ 7,851
Total Veterans Affairs:	\$ 19,060	\$ 12,851
Total	\$ 171,433	\$ 88,093

Note: Not all agency requests are included, but rather, only agency requests associated with the Governor's recommendations.

Administration

The Governor recommends \$21.2 million for five projects:

- **Centennial Parking Ramp Structural Repairs:** \$10.9 million to repair damaged post tension cables in the ramp. Damage to the cables was discovered during a recent assessment, requiring immediate closure of the ground floor of the ramp to shore up the second story. In addition, the park on the roof of the facility is leaking and may be causing further damage. A new storm water retention system is needed to capture parking ramp runoff.
- **Visitor and Staff Parking Facilities:** \$6 million for land acquisition to plan for additional parking facilities on the Capitol Complex. The agency had requested \$66.7 million to acquire two parcels located near the Capitol, and for design and construction of a new multi-level parking ramp. The Governor is recommending only the funding to purchase the land.

The Governor is recommending the use of general obligation bonds for both of these parking projects. Recent practice has been to fund parking facilities through user-financing, with the debt service costs paid by employee parking fees. As a result, parking fees have increased substantially in recent years.

- **Statewide CAPRA (Capital Asset Preservation and Replacement Account):** \$2.5 million for the Capital Asset Preservation and Replacement Account (CAPRA). CAPRA is a statewide fund for emergency repairs and unanticipated hazardous material abatement. The fund is administered by the Department of Administration on behalf of other state agencies.
- **Capitol Complex Monuments / Memorials Repair:** \$350,000 to repair and restore the Peace Officers Memorial and the Roy Wilkins Memorial
- **Agency Relocation:** \$1.5 million from the General Fund for unanticipated agency relocation costs. The request is for needs not covered under other capital requests, including reorganizations and downsizing, landlords choosing not to renew agency leases, or sale of a facility.
- **Not recommended:** The Governor did not recommend funding for three of Administration's requests: design of the restoration of the State Office Building, a strategic plan for enterprise facilities, and funding for enterprise asset preservation.

Repair & Maintenance Funding for State Buildings

The state has several sources of funding for repair and maintenance. Smaller repairs are covered through agency operating budgets. Known repair and maintenance needs above \$25,000 are included in the asset preservation recommendations for several state agencies (including the

departments of Military Affairs and Veterans Affairs, as discussed below). CAPRA (Capital Asset Preservation and Repair Account) is limited to emergency repairs. Administration also accumulates funds collected as rent to recover depreciation on buildings or construction projects funded through state bonds. These funds are deposited in the Facilities Repair & Replacement Account in the special revenue fund, and are available for asset preservation projects.

Sources of Funds Available for Maintenance & Repair of State Buildings		
	<i>How are funds requested?</i>	<i>How are funds used?</i>
<i>Operating Funds</i>	Requested by each agency in its operation budget.	Projects are typically under \$25,000. Usually used for the day-to-day maintenance projects.
<i>Asset Preservation</i>	Requested by each agency in a capital budget request	Known repair and maintenance projects costing between \$25,000 and \$300,000.
<i>CAPRA</i>	Central account managed by Admin for use by state agencies. Request is based on historical spending and information from all state agencies regarding their facility needs	CAPRA funds may be used for emergencies, removal of life/safety hazards, containment of hazardous substances, and repair/replacement of roofs, windows, tuckpointing and structural elements necessary to preserve the building.
<i>Facilities Repair & Replacement Account</i>	Money collected by Administration as rent to recover the depreciation costs of buildings under Admin's custodial control	Used only for asset preservation projects on buildings from which money is collected.

Minnesota Amateur Sports Commission (MASC)

The Governor recommends \$5.6 million for two projects for the National Sports Center:

- **Field Expansion:** \$5.1 million to build 20 additional playing fields, and to construct a new maintenance facility for equipment and supplies. The 2014 bonding bill included \$3.2 million for the initial stages of this project.
- **Asset Preservation:** \$500,000 for asset preservation projects, including stadium repairs, Schwan Super Rink flooring replacement, and parking lot repairs.

The Governor did not recommend funding for the MASC's other requests: the Northwest Regional Sports Center in Moorhead, and planning funds for the Urban Regional Sports Center in St. Paul.

Minnesota Historical Society

The Governor recommends \$36.5 million in GO bond financing for two projects requested by the Minnesota Historical Society:

- **Historic Sites Asset Preservation:** \$2.5 million is for preservation and restoration of historic structures, landscapes and buildings. 2016 priorities include interior stabilization and foundation and structural repairs at Fort Snelling. Funds would also be used for life-safety projects, infrastructure upgrades, energy and security improvements, and other preservation projects statewide.
- **Historic Fort Snelling Pre-Design:** \$34 million for design and construction of a visitor center within historic cavalry barracks located adjacent to the Fort. The Historical Society anticipates raising \$12 million in non-state funds, for a total project cost of \$46 million. The 2015 bonding bill included \$500,000 for predesign to determine the scope, cost and schedules for this project.

The Governor did not recommend funding for the Historical Society's other request, \$1.5 million for county and local historic preservation grants.

Military Affairs

The Governor recommends \$10.5 million for three projects at National Guard facilities. The department manages almost 5 million square feet of facilities at over 1400 buildings across the state including Camp Ripley and the 63 armories, officially called Training and Community Centers. The projects are:

- **Asset preservation:** \$2.5 million for deferred maintenance projects at armories and training facilities. The request is based on detailed facilities audits, which document a maintenance backlog of over \$107 million. The average age of the state's armory facilities is over 48 years. Priority projects include the facilities at Rochester, Willmar, Detroit Lakes and St. Peter. The state funds will be matched by federal funds.
- **West St. Paul:** \$4.5 million to construct a 15,604 Readiness Center to support training and logistical requirements for the National Guard. The existing center in West St. Paul is 56 years old, and has high annual maintenance and operating costs. A partnership with the city is projected to provide cost savings to both the state and the city.
- **St. Cloud Facility:** \$3.5 million to design and construct a renovation and expansion of the St. Cloud Readiness Center. Upgrades will be made to meet existing life safety code and accessibility requirements. Equipment replacements will include a new boiler and HVAC system, and replacement of both interior and exterior lighting. Federal funds will provide 75 percent of the funding for new construction, and 50 percent for the maintenance and improvements to existing space.

MN-IT Services

The Governor recommends \$1.4 million to repurpose existing data center facilities back to office space. The space is located at the Bureau of Criminal Apprehension's Maryland Avenue office, and the Department of Revenue's Stassen building. The repurposing is necessary after a planned consolidation of existing data centers into more secure enterprise centers. The 2011 legislature appropriated \$5.7 million to begin this process by repurposing the 5th floor of the Centennial building, where the MN.IT data center used to be located.

Veterans Affairs

The Governor recommends \$12.9 million for two projects at the Department of Veterans Affairs:

- **Asset Preservation:** \$5 million for renovation and upgrades to the 58 buildings under control of the department. Projects are located at the five veterans homes (Minneapolis, Fergus Falls, Hastings, Luverne, and Silver Bay).
- **Minneapolis Home Truss Bridge Project:** \$7.8 million to repair the historic truss bridge on the Minneapolis Home campus. In August 2014 the bridge was found unsafe and was closed to both vehicle and pedestrian traffic. As a result, access to the campus is now limited to one entrance.

For additional information on State Government finance issues, contact Helen Roberts at 651-296-4117 or Helen.roberts@house.mn.

Transportation

Of the thirteen agency requests for 2016, the Governor recommends six. Agency transportation requests totaled \$347.6 million, and the Governor’s budget provides \$135.6 million for the recommended projects. Below is a summary of the Governor’s recommendations and related agency requests.

Transportation Finance and Policy Division Governor’s 2016 Capital Investment Recommendations <i>(all dollars in thousands)</i>		
Projects by Agency	Agency Request	Governor’s Recs
Department of Transportation		
Rail Grade Separation on Crude Oil Rail Lines Program	\$69,624	\$69,624
Rail Quiet Zones	\$10,000	\$10,000
Highway/Rail Grade Crossing Warning Systems	\$12,000	\$5,000
Facilities Capital Program Trunk Highway Fund	NA	\$40,000
Port Development Assistance	\$10,000	\$10,000
Passenger Rail Program	\$21,000	\$1,000
Total	\$122,624	\$135,624

Note: Not all agency requests are included above, but rather, only agency requests associated with the Governor’s recommendations.

Funding sources for the projects include general obligation bonds, and trunk highway fund cash. Agency requests not recommended for funding by the Governor include funding for the Local Road and Bridge state aid programs, and any metropolitan area transit requests by the Metropolitan Council including \$135 million for the South West Corridor (Green Line) Light Rail Project.

Department of Transportation

- **Rail Grade Separation on Crude Oil Rail Lines Program:** \$69.6 million in GO bonding for constructing overpasses or underpasses for Railroad crossings along crude oil train routes. Grade separations cost between \$10 million to \$50 million in most cases.
- **Rail Quiet Zone:** \$10.0 million in GO bonds to install Railroad warning devices at street intersections in areas where trains must currently blow whistles. These funds would be used as grants for assistance to local governments.

- **Railroad Grade Warning Device Replacement:** \$5.0 million in GO bonds for replacing aging warning devices where railroads cross highways.
- **Facilities Capital Program:** \$40 million in Trunk Highway Fund cash to improve, renovate and construct MnDOT trunk stations and several MnDOT district headquarters. MnDOT requested Trunk Highway Bonding for this project, but the governor recommends Trunk Highway Fund cash spending.
- **Port Development Assistance:** \$10 million in GO bonds for public port infrastructure repair and improvement projects for the port authorities of St. Paul, Duluth, Winona, and Red Wing.
- **Passenger Rail Programs:** \$1 million in GO bonds for continued preliminary engineering on potential high speed intercity rail lines in Minnesota.

Implications and Considerations

For a number of the transportation capital projects discussed above, MnDOT and the Governor recommend using trunk highway fund cash rather than trunk highway bonds. By the end of the FY 2016-17 biennium, the trunk highway fund is expected to have a balance of \$63 million. By the end of the FY 2018-19 biennium, this balance is expected to grow to \$261 million based on the projected revenues and expenditures; the fund has the capacity to support using cash for the recommended projects.

However, the discussion as to whether to use trunk highway bonds or cash goes beyond fund balances and onto larger policy topics since bonds are financed over twenty years or more and cash is an immediate obligation. Some of these topics include: the amount that should be left in the fund to deal with unanticipated fluctuations (e.g. changes in revenues, unanticipated needs, etc.), the percent of trunk highway funds that should go towards debt service payments, the amount of additional funding that could be used for other activities (e.g. maintenance or construction of roads), and the fundamental discussion of pay-as-you-go versus bond financing. MnDOT is currently working on a debt management policy for the trunk highway fund and is also developing additional policies on fund management.

For further information on Transportation finance issues contact Andrew Lee, House Fiscal Analysis Department at 651-296-4181 or Andrew.Lee@house.mn.