STATE OF MINNESOTA

Department of Finance

# FY 2002 – 2007 Capital Budget Instructions

**Prepared May, 2001**

# State Of Minnesota

## Department of Finance

400 Centennial Building ♦ 658 Cedar Street ♦ Saint Paul, MN 55155

May, 2001

To: State Agencies and Higher Education Institutions

On behalf of the Ventura administration, I am pleased to present the enclosed capital budget instructions that outline the policies and procedures by which applicants may submit capital requests for consideration in the 2002 legislative session.

The key dates in this process include June 15, 2001 for completion of preliminary agency requests and October 31, 2001 for completion of final requests. The Governor's Strategic Capital Budget Plan will be presented to the Legislature on or before January 15, 2002.

As in past years, agencies have flexibility when preparing preliminary capital requests. Agencies should decide how much preliminary information they wish to load into the state Capital Budget System (CBS). The Department of Finance will not edit preliminary requests – all data in CBS on June 15th will be forwarded to the Legislature (without Governor's recommendations).

The departments of Finance and Administration will conduct a technical review of requests during this summer. Review comments will be forwarded to agencies to assist applicants in revising and improving their project data.

Although final requests are not due until October 31st, agencies are encouraged to load substantial project data into CBS as soon as it becomes available throughout the summer and early fall.

Governor Ventura and the Department of Finance appreciate your dedication in preparing timely and thoughtful requests.

Please call me if you have any questions.

Sincerely,

**Lee Mehrkens**
Capital Budget Coordinator

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Web site: http://www.finance.state.mn.us An Equal Opportunity Employer

## Capital Budget Deadline Dates

| | |
|---|---|
| May, 2001 | Capital Budget Instructions and CBS User Manual are issued. |
| **June 15, 2001** | **Preliminary capital budget requests are due to the Department of Finance.** |
| July 1, 2001 | Preliminary capital budget requests are forwarded to the Legislature (without Governor's recommendations). |
| June-October 2001 | DOF/Admin screen requests, provide preliminary scoring, and meet with affected agencies. Agencies revise requests, as necessary. Legislative committees conduct site visits. |
| **October 31, 2001** | **Final capital budget requests are due to DOF.** |
| November, 2001 | DOF/Admin complete final review and scoring of agency requests. State revenue and debt capacity forecasts are issued. |
| January 15, 2002 | Governor submits FY 2002-07 Strategic Capital Budget Plan to the Legislature. Legislative committees begin formal review of agency requests. |
| April, 2002 | Legislature adopts and the Governor approves the 2002 bonding bill. |

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# CHAPTER 1
# INTRODUCTION

This manual is the ***FY 2002-2007 Capital Budget Instructions.*** Its concepts and guidelines are the result of a combined approach by the executive and legislative branches to reform the State of Minnesota's capital budget process. It. describes the policies by which applicants can prepare capital budget requests for consideration in the 2002 legislative session. In addition, state agencies should obtain a copy of the ***FY 2002-2007 Capital Budget System User Manual*** for information on how to load requests into the on-line, computerized capital budget system.

## Benefits of the Capital Budget Process

Strategic capital budget planning has two basic objectives:

1) To make informed capital investment decisions according to a fair, open and objective process, and

2) To effectively manage resulting assets and existing facilities.

To achieve these goals, capital budget planning is built on a series of guiding principles:

- Creation of a six-year strategic capital budget with six-year financing capacities.
- Development of agency long-term strategic plans and requests over a six-year horizon.
- Preparation of uniform and adequate project information to further the responsible consideration of requests by the Governor and Legislature.
- Balancing the need to maintain and re-use existing facilities with requests for new buildings.
- Reduction of the state's deferred maintenance backlog (capital iceberg).
- Utilizing smart growth and high performance building practices.
- Sequencing appropriations for predesign, design and construction stages to better utilize bonding capacity and more accurately control costs.
- A two-part request review process: qualification and scoring.
- Integration of capital and operating budgets.
- Compliance with all applicable requirements of the Minnesota Constitution and state statutes.

Questions regarding this document may be directed to the Lee Mehrkens in the Department of Finance (DOF) at (651) 296-1700.

## Loading Request Data into the Capital Budget System (CBS)

Agencies should note that the capital budget process outlined in this manual has been updated from previous capital budget cycles. Although the same fundamental principles apply, improvements have been made as follows:

- The on-line Capital Budget System (CBS) has been improved. This is a fully interactive system in which agencies will enter and update all project narratives and numbers. Project requests are stored in a database with advanced reporting features. Agencies should contact Diane Lunda in DOF at (651) 282-5668 to obtain a copy of the ***System User Manual*** that accompanies this document for instructions on how to enter requests into CBS. The System User Manual is also available on the department's web site at www.finance.state.mn.us.

- Consistent with the State Budget Information System (BIS) and Fiscal Note Tracking System (FNTS), the narrative tools and text editor in CBS use Word software. Agencies will need to install Word 97 on their PCs or a more recent version of Word in order to access budget narratives. If you have technical questions related to running CBS on your PC, please call MnASSIST Technical Services at (651) 215-0488 (metro) or 1-800-555-0488 (outstate). Select Option #6 for assistance.

- Printing requests from CBS has been made easier. Upon executing a print command for documents, the CBS system will automatically convert the data into a PDF format and print the data to your local printer. This will speed up printing and eliminate past problems related to faulty printer definitions.

## Requests from Local Units of Government

Because local governments do not have direct access to CBS, local government requests should be forwarded to DOF either in writing (in a letter or memorandum), or via e-mail as a Word document (Word 97 or a more recent version of Word). Word documents transmitted by e-mail can be forward to lee.mehrkens@state.mn.us. Separate instructions for capital requests from local units of government can be found at www.finance.state.mn.us under Capital Budget.

Local units of government should not submit requests for projects that are routinely considered or allocated through existing agency grant programs. Such requests should be forwarded directly to the state agency that administers the on-going grant program. Applications for projects that are eligible for consideration under existing agency grant programs will not be accepted by DOF. Applications to state agencies that have previously been rejected for grant awards should not be forwarded to DOF; rather, such applications should be re-submitted to the granting agency for consideration during their next funding cycle.

# CHAPTER 2
# OVERVIEW OF THE CAPITAL BUDGET PROCESS

Many important capital budget reforms were implemented in the 1990s. Additional principles will likely be implemented in the 2002 session and future years. Reflecting these change dynamics, this manual simultaneously defines "what to do now" as well as "what targets to point toward."

## Acting From a Long-Term Plan

The FY 2002-2007 capital budget process emphasizes the requirement for long-term planning. Agencies are expected to base their requests on a long-term strategic plan that articulates the mission of their agency and a vision of the future direction of their organization. Strategic plans should cover at least a six-year horizon. Over time, these long-term plans should be updated.

Agencies may submit requests for state funds in the 2002 legislative session and identity other capital requests anticipated in 2004 and 2006. The estimated cost of each project must be identified regardless of the biennium requested. For example, if design money is requested in one biennium and construction costs (the "tail") in another, the amounts for each biennium should be identified in the six-year package. If an agency is making a multi-year non-building request, the amounts required to fulfill the commitment for each biennium should be identified.

Projects not funded in one biennium can be reconsidered in a future biennium along with new requests. Thus, agency plans can be viewed as "rolling long term plans." "Rolling" means that each biennium's capital and operating budgets are derived from the previous cycle and updated for current conditions. This kind of forward thinking anticipates future funding requests and attempts to eliminate surprises.

Long term strategic planning is a cornerstone of the process. In order to receive funding for capital projects, agencies will have to establish a clear linkage between their project requests and their agency's long-range strategic goals.

## Making Informed Capital Budget Decisions

One of the fundamental principles in the capital budget process is making intelligent investment decisions through consideration of capital requests in their strategic context on the basis of comprehensive project data.

A major advancement in previous capital budget cycles was the creation of much-improved capital budget request forms. These forms provide a vehicle for agencies to be effective advocates for their requests through presentation of improved project information.

All requests must be entered into CBS with adequate information to allow a meaningful consideration of the project by the Governor and Legislature. In addition to agency strategic planning goals, project requests must include a full description of the project rationale, costs, future funding requirements, project schedule, and associated operating budget impacts.

Demographic trends are one of the main factors relating to capital needs. The agency should relate their requests to estimates of student, inmate, or patient resident populations, for example, and other factors influencing the demand for services. Trend analysis should begin at some point before the beginning of the cycle and continue through FY 2007.

## Level Funding within Available Bonding Capacity

Estimates of available bonding capacity define the boundaries for total state capital appropriations. The Department of Finance will continue to estimate available bonding capacity six years into the future. These estimates of available bonding capacity for the next three biennia (FY 2002-03, 2004-05, and 2006-07) will be based on known commitments and the latest revenue forecast.

The state's most important debt management guideline is that no more than 3% of non-dedicated general fund revenues should be used for debt service in any biennium. By limiting debt service payments, this guideline limits the overall number and size of project authorizations in the bonding bill.

Bonding capacity for new capital projects is affected by several factors such as the amount of the general fund appropriation for debt service, the amount of bonds outstanding, the amount of new bonds that must be sold to finance existing authorizations during the biennium, project cash flows, and interest rates.

Bonding capacity estimates are a tool for achieving significant financial reforms. It is important to evenly size capital bonding bills over a six-year period to ensure future capacity. A six-year horizon is necessary in order to reflect the long time span often involved in bringing capital projects from planning to construction.

The Department of Finance will track the six-year impact of all agency requests. It is assumed that the Governor's plan and legislative action in 2002 will not exceed bonding capacity as defined by the 3% guideline at any point in the six-year cycle and will provide a stable, level amount of state capital investment.

## Use of General Obligation Bond Proceeds

Bonding bills typically provide most financing for capital projects through proceeds from the sale of state general obligation (G.O.) bonds. For projects receiving state bond financing, the requests and subsequent bonding appropriations must comply with constitutional provisions regarding definitions of eligible capital projects and the proper use of state bond proceeds.

The Minnesota Constitution sets parameters regarding the purposes for which the state may incur debt. This applies specifically to the use of proceeds from the sale of state general obligation bonds.

Applicants should be aware that state bond proceeds can only be used for capital projects which meet a public purpose and for facilities owned by public entities. Private parties and non-public organizations are not eligible to receive state general obligation bond proceeds and should not request such funding.

Applicants should also be aware that general obligation bonds may only be used for qualified capital expenditures. This refers to land acquisition, predesign/design expenses, construction, and improvement of specific projects and tangible fixed assets. General operating expenses including services, programs, strategic planning, and master planning are not bondable expenses. Expenses that are not bond-eligible will require cash appropriations from the general fund or another state fund.

## Staged Sequence of Predesign, Design and Construction Appropriations

Applicants should understand the concept of a sequential series of predesign, design and construction appropriations when considering their project schedule and timing of requests. The goal for the state is to spend a little for predesign (usually less than 1% of total project costs), before spending more for design (typically 6-10% of project costs), before spending a considerable sum for the balance of all other construction and non-construction costs (usually greater than 89% of total project costs). With investment in the front-end planning of a project, decision-makers receive substantial information early in the life of a project before committing substantial resources.

The Department of Administration has created a ***Predesign Manual for Capital Budget Projects*** for use by agencies. The predesign manual can be found at the Department of Administration's web site at www.dsbc.admin.state.mn.us. All recipients of capital appropriations for building projects must prepare predesign documents for review and comment by Administration before commencing design activities, as required by state statutes.

Predesign information submitted to the Department of Administration should contain a comprehensive view of the project's purpose, scope, cost and schedule. Aided by this predesign information early in the process, the Governor and Legislature will have better information at a minimal cost to evaluate the project and decide whether subsequent design and construction appropriations are warranted.

Agencies should prepare their requests to anticipate a staged sequence of predesign, design and construction appropriations. **Design appropriations should not be requested before predesign plans are completed**.

**Costs of Capital Project Stages**

Predesign: Less than 1%
Design: Less than 10%
Construction: Greater than 89%

On occasion, there may be projects with compelling project timetables that cannot be reasonably accommodated through sequenced appropriations spanning three biennia. To keep these urgent projects moving forward without undue delay, DOF/Admin recognize that certain projects may be presented through combined predesign/design, design/construction, or design/build requests.

DOF/Admin will assist agencies in determining the most appropriate course of action. Agencies should also consider the possibility of reallocating funds for predesign activities from their current operating budgets in order to meet critical project schedules, rather than relying exclusively on capital appropriations. **In all cases, completion of the predesign stage is a critical step in providing state decision-makers with sophisticated and well-reasoned project information.**

Agencies should also note that design activities must comply with the provisions of Minnesota Statutes 16B.335, subdivisions 1-5, regarding preparation of design documents and their subsequent review by the chairs of legislative committees prior to preparation of construction documents. Applicants should carefully read this statute.

## Project Needs Analysis and Predesign

The capital request process is designed to encourage agencies to be effective advocates for their needs. Agencies are expected to develop well qualified projects and provide useful data to DOF, Admin, the Governor and the Legislature.

Important characteristics of project needs analysis include:

- Calculation of project space requirements.
- Inventory of available space.
- Calculation of the amount and type of new space required.
- Comparative assessment of all facility alternatives, including renovation and remodeling.
- Consideration of lease versus ownership options.
- Selection of the preferred alternative.

## Condition and Suitability of Existing Facilities

Decisions on appropriating funds for new facilities must be made in the context of an agency's existing capital assets and facility master plans. This involves an assessment of the condition and suitability of existing space measured against the desire to develop new space.

Agencies are expected to objectively measure the adequacy of existing assets to meet program needs. The agency may request funding for new construction only if existing facilities are proven inadequate to meet program needs. As a standard rule of practice, agencies should make a concerted effort to utilize existing space before rushing to develop new facilities.

The Department of Administration is currently coordinating an inventory of state facilities. This inventory will be an important tool for assessing the condition and suitability of the state's physical facilities. As the inventory is updated it will provide an assessment of the trend in the condition and suitability of the facilities and a measurement of the size of any deferred maintenance backlog.

## Sustainable, Higher Performance Buildings

Projects that receive state funding will be expected to employ high performance building practices. In general, this means designing buildings, sites and infrastructure that are energy efficient, healthy for occupants, durable and adaptable to future uses, use fewer resources, cost less to operate and maintain, and create less waste over their lifetimes.

In keeping with the capital budget principles developed for the 2000 budget cycle, agencies should note that there are new expectations about <u>how</u> projects are designed and built that are meant to complement the criteria used to decide <u>whether</u> or not a particular project receives funding.

These new expectations fall under the general heading of sustainable, high performance building practices and elaborate on the following existing Smart Growth capital budget criteria:

- Provide wise stewardship of land, buildings and natural resources to sustain them over time, and
- Select efficient, integrated public investments based on lowest long-term economic, environmental and social costs.

To adhere to these budget criteria, it is the policy of the executive branch to encourage high performance building practices. These are defined as a comprehensive and integrated design approach that strives to maximize human comfort and productivity while minimizing the building's lifetime operating and environmental costs.

## Integration of Capital and Operating Budgets

Agencies are asked to identity the operating budget impacts of capital requests over the next six years. Much like fiscal notes, these costs must be shown on the project request forms and are considered "facility notes". The Governor and Legislature will use these operating cost estimates as part of their decision-making deliberations. If the capital request is approved, these estimates will be considered for adjustments in subsequent agency operating budgets. Because agencies will be held accountable for their operating cost estimates, it is imperative that reliable data is presented.

## Qualification and Scoring

The process for reviewing agency requests has two parts: qualification and scoring. Qualification is the process of determining whether capital budget requests adhere to agency strategic plans, include the complete examination of all reasonable alternatives, utilize generally accepted space utilization and cost planning standards, and are eligible for bond financing when such funding is requested. Agencies are responsible for submitting requests with complete information and sufficient justification in order for their requests to be deemed qualified. Projects that do not qualify will not be scored or recommended for appropriation.

Minnesota Statute 16A.11 directs the Governor to submit capital budget requests to the Legislature which identify agency priorities. Accordingly, agencies must determine project priorities for 2002 requests and record this information on their project summary form. Agencies should not prioritize out-year requests for 2004 and 2006.

The capital budget process incorporates a strategic scoring system in which DOF will provide scoring information to the Governor and Legislature. Only qualified requests will be scored. The statewide scoring system will take into consideration a number of factors including agency priorities, the project's adherence to agency strategic goals, statewide significance, project functionality and rational, examination of financing options, impact on operating budgets, and many others.

The period from the publication of this manual until October 31 is designated as a time for interactive project planning between agencies and DOF, Admin and the Governor's office. During this time, project proposals will be screened and appropriate feedback provided to agencies.

## All Requests Should Go to the Governor and Legislature

All requests that are deemed to be qualified, scored, and submitted as final requests by the October 31st deadline will be presented to the Governor and Legislature for their consideration. Some requests will be recommended by the Governor, others will not, but all request data will be forwarded to the Legislature by January 15, 2002.

This open process, coupled with comprehensive capital budget forms, allows applicants to fully articulate their funding requests. Projects that are submitted directly to the Legislature without having completed the proper forms and without having been presented to the Governor are discouraged. Without having been presented with project data contained in the request forms, the Governor is unlikely to be comfortable in supporting such projects.

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# CHAPTER 3
# PROJECT PREDESIGN, DESIGN AND CONSTRUCTION

Once agency-wide strategic planning is completed, specific project planning can begin. This chapter describes the recommended steps in project development including:

- Project programming and needs analysis
- Predesign
- Design
- Construction

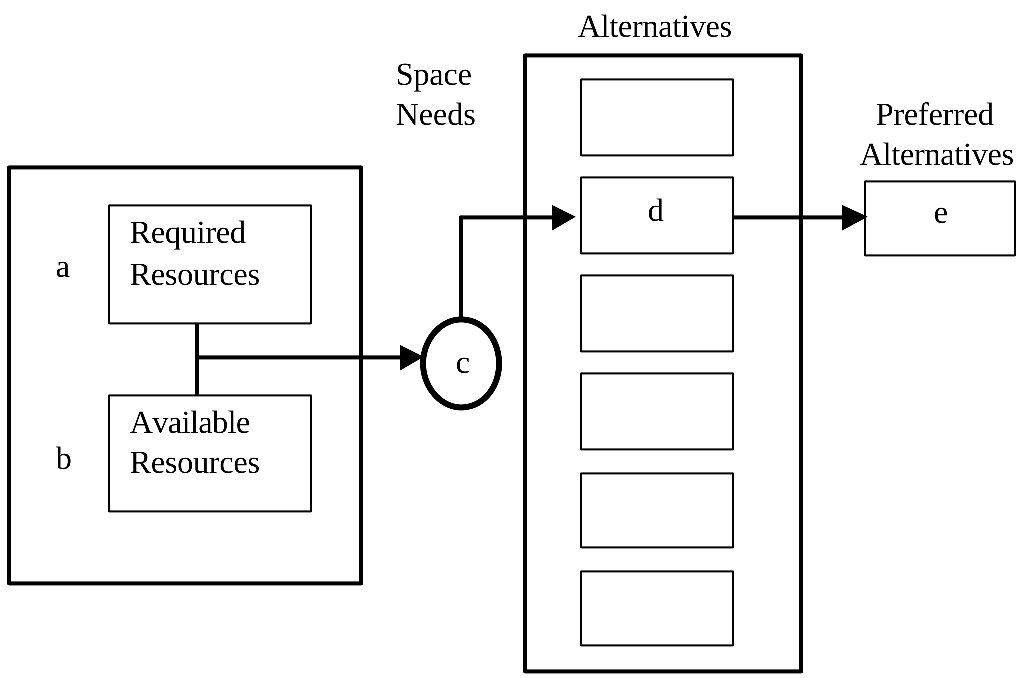
## Project Programming and Needs Analysis:

While the underlying strategic plan is agency-wide, the operational program is specific to the proposed project. The operational program describes the services to be provided and products to be delivered to meet the overall requirements of the strategic plan. The operational program avoids leaping to design a project and may take place either before or as part of predesign activities.

Steps in the project programming and needs analysis process are shown in the following exhibit:

A. Estimate the total amount and type of space required.
B. Inventory the amount and type of space currently in service plus any amount approved or under construction.
C. Calculate the amount and type of additional space required.
D. Assess alternatives for meeting the operational program such as use of existing space, adaption of existing space, new construction or leasing space.
E. Select the preferred alternative.

**The Project Programming and Needs Analysis Process**



Each agency's situation will require the process to be applied in different ways. DOF/Admin recognizes these differences. There are, however, threads of continuity that should run through needs analysis performed by all agencies:

- Derivation of space requirements - the determination of unsatisfied needs must be logically derived. Operational requirements should be translated into gross physical requirements by the application of generally accepted space utilization standards. The proposed project budgets must be derived from reliable cost standards for both first cost and life cycle costs.
- Strategic consideration of alternatives -- statewide, agency and project-related strategic issues should be considered when evaluating alternatives. The proposed project should fit well in statewide or agency strategic plans.
- Technical consideration of alternatives - in the physical planning sense, consideration of alternatives also means the examination of various configurations to satisfy the program requirements (e.g., single story vs. multi-story, addition to an existing facility vs. free standing building, and consideration of remodeling existing facilities).

## Space Utilization Guidelines

Translating agency operational requirements into physical requirements involves the application of space utilization guidelines. These guidelines are often expressed in numerical terms that relate to industry building standards.

"Amount of space" indexes are the result of considering functional and other architectural and engineering requirements and laying out space to meet the need.

Utilization ratios define the relative efficiency of a building. The ratio of assignable space to the gross area of the building is a common index. The ratio of usable space to the gross area of the building is also commonly used.

Both types of indexes may spring directly from the past experience of agencies or may be influenced by federal or state requirements. In all cases, application of suitable planning indexes is essential to the needs analysis process.

## Cost Planning and Estimating Standards

The reliable prediction of project costs is crucial to success. The methods of predicting probable costs during project planning are different from methods employed during final design and construction.

Cost planning is not the same as cost estimating. Cost planning occurs during predesign and early design and relies on historical experience with similar projects. This method is reliable if the cost planner carefully examines completed projects and determines they are similar to the proposed new project. Analysis of cost data by program type is typically more accurate than data on average cost per building square foot.

Cost estimating during final design and construction typically relies on counting all the pieces and applying respective unit prices. This method is reliable provided the piece count and unit prices are accurate. It is generally accepted that costs should become more reliable as the project moves from predesign (cost planning) into advanced design (cost estimating).

## Inventory of Major State Buildings and Office Space

A facility audit is intended to support informed decision making concerning reinvestment by answering questions such as:

- Is the building or facility within its useful life and worthy of reinvestment?
- What is the cost of the reinvestment (deferred renewal, if any) to catch up?
- What is the estimated schedule of renewal work over the next six years?

Knowledge of existing facility conditions is an essential ingredient to consideration of alternatives and selection of the preferred alternative on the basis of program suitability, lowest first cost and lowest life cycle cost.

## Predesign

Following the selection of a preferred strategic alternative through the needs analysis process, predesign may proceed. The ***Predesign Manual for Capital Budget Projects*** is published and occasionally revised by the Department of Administration's Division of State Building Construction (DSBC). This manual is intended to guide the requesting agency in completing the project predesign in accordance with M.S. 16B.335.

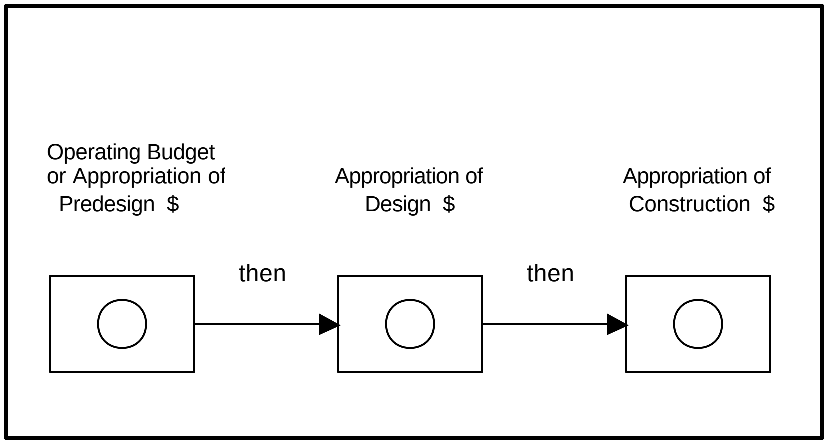
A current version may be obtained from the DSBC web site at www.dsbc.admin.state.mn.us. Questions on the predesign manual should be referred directly to Gordon Christofferson in DSBC at (651) 297-2245 or e-mail at gordon.christofferson@state.mn.us.

An agency may elect to make a capital funding request for predesign. Alternatively, the agency may choose to perform predesign using its own funds to speed up the process and initiate its capital request for design and construction after completion of predesign. **In either case, predesign must be completed and submitted for Admin review before commencing design.**

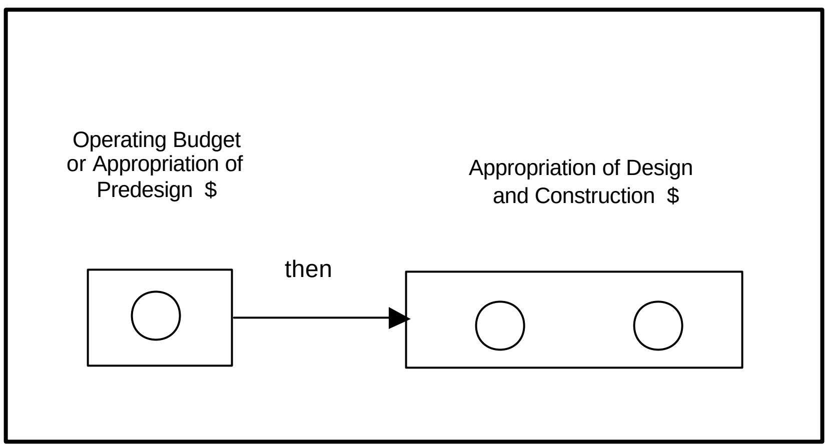
## Preparation of Single or Multiple-Part Requests

Each capital request contains a funding sequence that may be determined by the nature of the project or by operational needs. For example, a large and complex project may be split into several separate requests. On other occasions, the exceptional urgency of a project might require a single request for all stages. Appropriation of funds for building projects will generally follow one of two sequences (displayed as follows):

**Separate Predesign, Design and Construction Appropriations over Multiple Years**




**Combined Design and Construction Appropriation over Fewer Years**



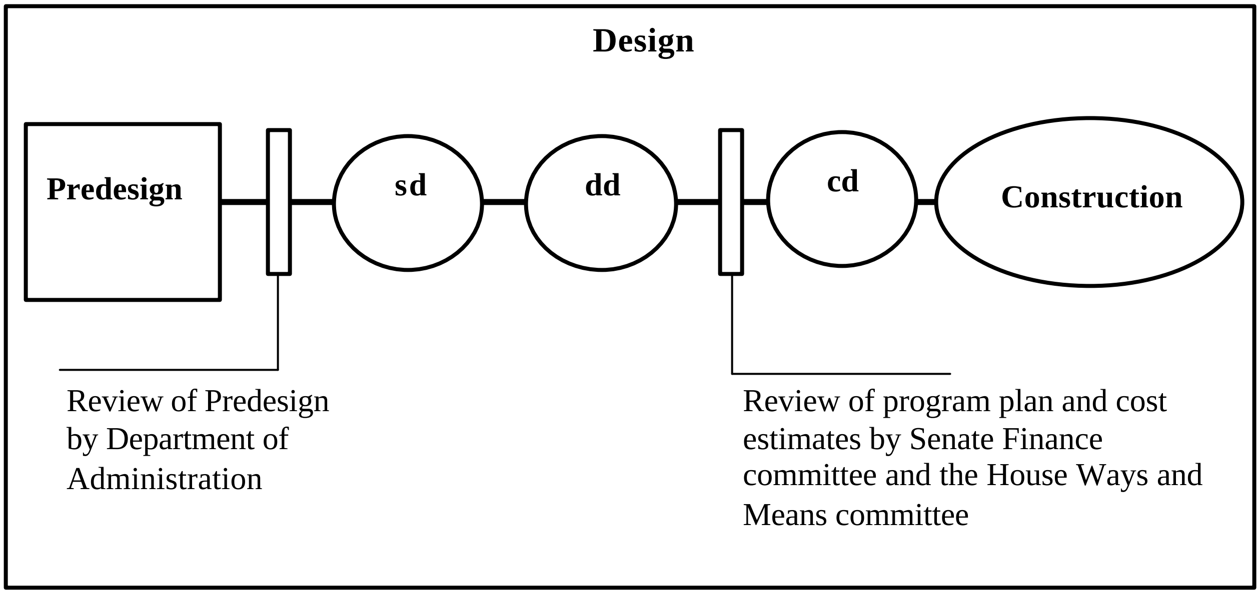

In most cases, agencies should anticipate a staged sequence of predesign, design and construction appropriations. This sequenced appropriation process should be used for relatively high cost and complex projects that extend over a series of biennia. In such cases, design appropriations should not be requested before predesign plans are completed.

There might be other situations, however, of compelling project timetables in which the project cannot reasonably wait for sequenced appropriations spanning three biennia. To keep urgent projects moving forward without undue delay, DOF/Admin recognizes that certain projects may be presented through combined predesign/design or design/construction requests.

DOF/Admin will assist agencies in determining the most appropriate method to stage requests. Agencies should also consider the possibility of funding predesign activities through reallocations in their operating budgets in order to meet critical project schedules, rather than relying exclusively on capital budget appropriations. In all cases, completion of the predesign stage is a mandatory step in providing state decision makers with sophisticated and well-reasoned project information.

Irrespective of when appropriations may be awarded, the building process has three main stages: predesign, design, and construction. The design stage is typically divided into schematic design, design development, and preparation of construction documents.

**Predesign, Design and Construction Stages**




The figure below summarizes the cost, schedule and results in each stage of a typical building project. Please note that these costs and schedules are heavily dependent on the project's size and complexity.

**Cost, Time and Results of Project Stages**

| | Strategic Planning | Predesign | Design | All Other Construction and Non-Construction Costs |
|---|---|---|---|---|
| Cost (% of total project cost) | N/A | Up to 1% | 6 - 10% | More than 90% |
| **Time Required** | 3-12 months | 6 - 24 weeks | 6 - 24 weeks | 8 - 30 months |
| **Results** | Agency Strategic Plan | Predesign document | Design documents | Constructed project |

During the predesign stage a relatively small amount of money and time is spent to determine project feasibility, and to define the essential aspects of the project. Predesign work usually requires 1% or less of total project costs and 6-24 weeks to perform. Minnesota Statute 16B.335 requires predesign to be performed and Admin to review predesign documents before the more costly and time-consuming design stage begins.

The design stage usually costs between 6-10% of total project costs and takes from 6-24 months to perform, depending upon the complexity of the project. These costs include architectural and engineering fees. The results of the design stage are drawings from which to bid and build the project.

After predesign and design, the largest percentage of project costs are spent. The balance of all other construction and non-construction costs may exceed 89% of total project costs.

Further information on predesign, design and construction requirements may be obtained by contacting Gordon Christofferson of the Department of Administration, Division of State Building Construction at (651) 297-2245 or e-mail at gordon.christofferson@state.mn.us.

## High Performance Building Goals and Strategies

Predesign is also the time to identify high performance building goals and strategies. Much like private sector goals of "zero defects," "zero accidents," and "zero emissions," agencies should make every effort to strive toward the following high performance building goals:

1. **Minimize lifetime costs**. Minimize lifetime costs to present and future taxpayers of state-owned, leased and financed buildings.

2. **Healthy, productive work environments**. Create healthy indoor environments that enhance employee productivity and wellness.

3. **More accessible government**. Site buildings where public infrastructure already exists and employ designs that reflect community preferences and accommodate a range of transportation options, including advanced telecommunications technologies that make government more accessible to the public.

4. **Sustainable resource use**. Give preference to building products that minimize lifetime costs made from renewable, recycled and recyclable materials, and to the development of brownfield sites that can be cost-effectively brought back into productive use. Use all resources as efficiently as possible and develop and follow a construction and demolition waste management plan that emphasizes source reduction, reuse and recycling of materials generated through construction, remodeling and demolition activities.

5. **Sustainable energy use**. Reduce fossil fuel use, use less polluting fossil fuels and give preference to least polluting and renewable energy substitutes.

6. **Pollution prevention**. Eliminate or minimize the use of persistent toxic chemicals in building materials and prevent or reduce other forms of waste and emissions that, if allowed to systematically build up in the environment, degrade Minnesota's air, water, land and other natural resources.

7. **Optimize and document building performance**. Ensure that facility managers and users can optimize the building's systems by commissioning the building and developing and following an operations and maintenance plan.

8. **Healthy natural systems**. Employ practices that preserve, conserve or enhance the natural landscape and habitat on-site.

9. **Consistent, effective government.** Ensure that operational and capital development proposals specify their links to agency strategic plans, including methods of service delivery, and with the state's overall strategic plan. The state's built environment should be a natural extension of and should help support its overall strategic goals.

10. **Continuous improvement**. Document barriers to implementing high performance building practices and share this information with the Department of Administration so the state may continuously improve the economic, environmental and human health performance of its buildings.

Agencies should identify strategies in the predesign phase that move toward these high performance goals, including expected outcomes, initial investment and long term cost impacts.

Because there are differences among high performance strategies in terms of costs, paybacks and ease of implementation, agencies may find it helpful to break their strategies down into categories that reflect these differences. For example:

- Strategies with no increased first costs
- Strategies with 10-year paybacks
- Strategies with paybacks beyond 10 years that may be appropriate for long-lived structures or because the extra investment works as part of a package of investments that together minimize the building's lifecycle costs.

The design stage should include energy modeling (such as is provided through XCEL Energy Corporation through their Energy Assets program) to demonstrate that design choices being proposed will minimize lifetime energy costs of the building. Agencies are encouraged to integrate at least those energy strategies with a 10 to 15 year payback.

The state's evaluation process will reward projects that optimize the use of existing capital assets, such as retrofits or other asset preservation measures, when doing so reflects the lowest lifetime cost and still meets the public need. Agencies should be prepared to identify current space use, condition of existing facilities, and whether or not existing facilities lend themselves to redevelopment to a different or improved program use.

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# CHAPTER 4
# STATUTORY AND OTHER LEGAL REQUIREMENTS

As part of recent capital budget reform efforts, new laws and requirements have been adopted which provide increased discipline in the capital budget process. In many cases these new laws supplement existing state constitutional provisions and statutory requirements regarding how state bond proceeds may be spent.

This chapter provides a brief overview to applicants and recipients of bonding bill appropriations regarding noteworthy requirements of capital appropriations. Applicants are advised to become familiar with these requirements, not just as part of the application process, but also to understand the impact of these requirements after a state appropriation is awarded.

Please note that this is not intended as an exhaustive reference to all requirements, but rather as a summary of the most noteworthy items, common questions, and sources of additional information. Agencies, grantees, and other applicants should consult with their financial and legal advisors regarding these and other requirements.

These requirements are also described in a June 14, 2000 office memorandum from Commissioner Pamela Wheelock entitled, ***"After the Bonding Bill – The Next Steps."*** This memo is available on the DOF web site at www.finance.state.mn.us under Capital Budget.

## Public Ownership, Public Purpose, and Use Agreements for State-Funded Projects:

The Minnesota Constitution, in Article XI, Section 5, limits the appropriation of state general obligation bonds to state agencies and political subdivisions of the state. Because of this constitutional constraint, grants or loans for capital projects from bond proceeds can not be made to non-profit or for-profit organizations. This requirement does not apply to cash-financed projects.

Minnesota Statute 16A.695, and the *Order of the Commissioner of Finance Relating to Use and Sale of State Bond Financed Property*, contains guidelines that must be followed when a capital project benefits a non-profit or for-profit organization. Generally, for a private organization to benefit from bond proceeds, the capital project must be owned by a state agency or political subdivision that enters into a use agreement with the private organization to provide a public program to be carried out by the private organization.

A state agency or political subdivision that enters into a use agreement with the private organization must be an active participant in the public program with ongoing oversight of the program. The public entity must be much more than merely a conduit with a one-time responsibility of passing the bond proceeds through a grant agreement to the private organization. The commissioner of Finance must approve all use agreements for bond-financed property.

Although projects that receive cash financing are not subject to public ownership and use agreement requirements of the Minnesota Constitution or M.S. 16A.695, cash projects are subject to conditions of the project authorization in the bonding bill. For example, if a cash appropriation is provided as a grant to a political subdivision, the project must be publicly owned. In addition, all cash and bond-financed projects must provide the purpose, program or service identified in the project authorization on an on-going basis.

If the program expressed in the project appropriation is discontinued and/or the sale of the capital asset or facility is contemplated, the grantee must comply with applicable sale and reimbursement conditions of the state.

In addition to consulting with the Attorney General's office and the Department of Finance regarding the various legal requirements affecting state capital appropriations, agency accounting coordinators should also review MAPS operating policy 0302-01, 0302-02, 0302-03 and 0302-04 when processing appropriation entry documents. The appropriate staff contact within the Department of Finance for M.S.16A.695 issues is Peter Sausen at (651) 296-8372.

## Standard State Grant Agreements for Local Projects

Once a capital appropriation is enacted into law by legislative action, the state agency that received the appropriation must prepare a grant agreement to disburse funds to a local grantee.

The Attorney General's office, in cooperation with the Department of Finance, has developed standard grant and disbursement agreements for use by state agencies when providing capital grants. These grant agreements contain provisions regarding a wide variety of applicable requirements. Standard grant agreements for cash and bond-financed projects can be obtained from the Attorney General's office and will also be posted to the Department of Finance web site at www.finance.state.mn.us. Agencies should consult with the Attorney General's office if they have any questions about these documents.

There are two basic versions of the state grant agreements – construction grants and end grants. Construction grants provide reimbursement to the grantee during project construction on an on-going basis. End grants provide a one-time reimbursement upon project completion (typically after a certificate of occupancy has been obtained by the grantee).

DOF recommends that agencies use end grants whenever possible. However, agencies will need to meet with grantees and consider the dynamics of each project when deciding which grant agreement is best.

## Capital Appropriations with Non-State Matching Requirements

Agencies should review the full-funding requirements of M.S. 16B.31, subd.2 which states, in part, *"No plan may be adopted, and no improvement made or building constructed by the commissioner or any other agency to whom an appropriation is made for a capital improvement, that contemplates the expenditure for its completion of more money than the appropriation for it, unless otherwise provided in this section or the act making the appropriation."*

Bonding bills commonly require non-state matching funds as a condition of receiving the capital appropriation. Typically, rider language for these appropriations specifies that the recipient may not receive the capital appropriation until the recipient has a commitment for or receipt of matching funds. Non-state funding may include federal, local and private funds.

Documentation must be provided to the granting agency and approved by DOF that the recipient has complied with all matching requirements. This documentation must verify that non-state matching funds have been received or the recipient has a legally binding commitment in place. Examples of documentation include account statements for private contributions, full funding resolutions from local governing bodies, grant award letters from federal agencies, and loans or letters of credit from private financial institutions.

In some cases, additional financing is needed to complete a grant project of a political subdivision or non-profit organization (above and beyond the state appropriation plus specific matching requirements expressed in the appropriation bill). In these cases, the grantee must demonstrate that *all financing* is in place to complete the project before state funding will be released.

For further information, please refer to MAPS operating policy 0302-02 at www.finance.state.mn.us. Questions on matching requirements may be forwarded to an appropriate DOF executive budget officer or Lee Mehrkens at (651) 296-1700.

## Operating Program Review for Bond-Financed Facilities

Minnesota Statute 16A.695, Subd.5 reads, in part: *"Recipients of grants from money appropriated from the bond proceeds fund must demonstrate to the commissioner of the agency making the grant that the recipient has the ability and a plan to fund the program intended for the facility."* As the language of the statute indicates, agencies that administer capital grant programs or are involved in partnerships with local projects funded by state bond proceeds have an expanded oversight responsibility in reviewing the financial capability of the project's operating program.

MAPS accounting policy (0302-04) suggests the type of financial review that agencies should conduct to satisfy this legal requirement. It's anticipated that certain types of financial information will need to be received from grantees in the course of the agency review process. Agencies that administer capital grant programs may wish to request that certain financial documents be included in the application materials submitted by grantees. Agencies will be expected to provide a certification of the results of their program funding review to DOF.

## M.S. 16B.30 General Authority

Subject to other provisions in this chapter, the commissioner of Administration is required to supervise and control the making of all contracts for the construction of buildings and for other capital improvements to state buildings and structures, other than buildings and structures under the control of the board of trustees of the Minnesota state colleges and universities. A state agency may not undertake improvements of a capital nature without specific legislative authority unless the improvement is minor in scope or is an asset preservation project.

## M.S. 16B.335 Predesign Review Requirements

As part of the state's efforts to make better informed capital investment decisions and more effectively manage its capital assets, the Department of Administration has developed a predesign requirement as required by Minnesota Statute 16B.335, Subd. 3. Agencies are required to complete a predesign document and submit it for review by the Department of Administration before proceeding with design work.

Questions regarding this process and requests for copies of the ***Predesign Manual for Capital Budget Projects*** should be forwarded to Gordon Christofferson of the Department of Administration at (651) 297-2245 or e-mail at gordon.christofferson@state.mn.us. The predesign manual can also be found at www.dsbc.admin.state.mn.us.

## M.S. 16B.335 Legislative Design Review Requirements

Minnesota Statute 16B.335, Subd. 1(a) reads, in part, *"The commissioner, or any other recipient to whom an appropriation is made to acquire or general public lands or buildings or other public improvements of a capital nature, must not prepare final plans and specifications for any construction, major remodeling, or land acquisition in anticipation of which the appropriation was made until the agency that will use the project has presented the program plan and cost estimates for all elements necessary to complete the project to the chair of the senate finance committee and the chair of the house ways and means committee and the chairs have made their recommendations, and the chair of the house capital investment committee is notified."*

Subdivision 1(b) of this statute exempts certain types of projects from predesign and design review requirements. Please review this statute in its entirety and consult with the legislative chairs named in the statute for further information regarding applicable legislative design review requirements.

## Project Cancellations in 2007

Minnesota Statute 16A.642 requires the commissioner of Finance to report to the Legislature by February 1 of each odd-numbered year regarding unencumbered or unspent balances of capital appropriations enacted more than four years prior to that date. These appropriations, or portions thereof, automatically cancel unless re-authorized by the Legislature.

The commissioner will report the status of all projects authorized in the 2002 bonding bill to the Legislature on February 1, 2007. All funding from the 2002 bonding bill that is neither contractually obligated nor expended will be cancelled at that time unless re-authorized by the Legislature. Once receiving an appropriation for their project, agencies and grantees are encouraged to advance their project with due haste to avoid future cancellation.

## Telecommuting and Information Technology Plan Requirements

The Minnesota Office of Technology (OT) provides statewide leadership and direction for information technology resources. The goal of OT is to ensure that the use of technology is maximized, technology projects are successful, and technology provides long-term benefits to citizens of Minnesota. OT establishes state information resource management policies, standards and guidelines, including industry best practices. OT is responsible for reviewing agency requests and expenditures for information related products and services.

The Legislature has mandated that state agencies requesting office space such as a new buildings (new construction or acquisition of an existing building), renovation/remodeling, or relocation need to submit telecommuting plans and information technology plans to OT for review.

The legislation requires state agencies to use telecommuting and information technology to accomplish the following three objectives:

- Improve utilization of office space.
- Decentralize operations.
- Deliver services electronically.

The goal of the OT telecommuting plan review process is to encourage, support and assist state agencies in implementing telecommuting programs and increasing telecommuting for employees in new facilities.

The goal of the OT information technology plan review process is to assist agencies to improve and expand current use of information technology when relocating or building a new office facility.

The legislation requires agencies to create a telecommuting plan or a statement indicating that telecommuting is not feasible for the agency, and an information technology plan for the building project. OT review is required before agencies can submit building or relocation plans to the legislature. Agencies are encouraged to submit these documents to OT as soon as possible to allow ample time for review.

Questions may be forwarded to Doug Selbee of the Office of Technology at (651) 297-5286, or e-mail at doug.selbee@state.mn.us.

## M.S. 16A.241 Coordinated Facility Planning

The commissioner of Administration is required to develop a coordinated facility planning process for offices located outside the metropolitan area for the following agencies: the Department of Health, Agriculture, and Natural Resources; the Pollution Control Agency; and the Board of Water and Soil Resources. Any proposals for consolidation or construction of facilities for these agencies that are included in budget documents submitted to the Legislature under M.S. section 16A.11 must first be considered as part of the planning process required by this section.

## M.S. 16A.86 Capital Requests from Political Subdivisions

Political subdivisions that request an appropriation of state money for a local capital improvement project should submit a preliminary request to the commissioner of Finance by June 15 of an odd-numbered year to ensure its full consideration. The final request must be submitted by November 1. The requests must be submitted in the form and with the supporting documentation required by the commissioner of Finance.

The commissioner will evaluate all requests from political subdivisions based on criteria expressed in that statute. The state share of a project covered by this section must be no more than half the total cost of the project, including predesign, design, construction, furnishings, and equipment, except for school projects or disaster recovery projects.

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# CHAPTER 5
# THE REQUEST REVIEW PROCESS

Request review is a two part process: qualification and scoring. This chapter outlines the process and provides a general schedule for its application. The capital request review process will proceed in the following sequence:

- Agencies identify requests over the six year time horizon (FY 2002-03, 2004-05, and 2006-07).
- Agencies prioritize 2002 requests and submit 2002 project info to DOF.
- DOF/Admin qualify requests or provide feedback to agencies on how requests can become qualified.
- DOF scores qualified 2002 requests based on statewide scoring criteria and provides this information to the Governor and Legislature.

## Qualification of Requests

Qualification is a yes or no decision. Qualification means that a request substantially complies with basic capital budget requirements. Only qualified requests will move to the scoring phase. Of the utmost importance will be a project's compliance with applicable statutes, bonding laws, funding restrictions, and related capital budget requirements. Almost all requests have the potential to become qualified. To that end, DOF/Admin will work cooperatively with agencies throughout the summer to assist in improving their requests to achieve qualification, whenever possible.

## Scoring of Requests

The strategic scoring system was developed to provide a professional evaluation to the Governor and Legislature of the comparative value of diverse and competing capital projects. Unlike qualification, it is not a yes or no determination. It seeks to establish the relative degree of a project's comparative value. It is performed by professional budget staff in DOF in a non-partisan manner.

All qualified 2002 requests will be assigned a strategic score. This score is designed to measure both the overall need for the project and the relative urgency for an immediate appropriation. Outyear projects will not be scored and outyear request forms are not required.

The strategic score is not a substitute for the decision-making process. It cannot measure whether education is a higher policy priority than human services or whether corrections might be higher than environmental protection. Essentially it is an attempt to define basic evaluation criteria to be applied against statewide, competing requests. Scores do not produce automatic funding decisions. Rather, they are designed to be used by the Governor and Legislature as an input to the decision-making process. This scoring criteria has been used since 1996.

As an exception, rather than using the scoring criteria contained in this chapter, local projects will be examined based on the criteria contained in Minnesota Statute 16A.86. Please see this statute for specific local project review criteria.

The following scoring criteria are grouped into two main categories -- critical and strategic. All 2002 capital requests will be evaluated using these criteria. Each capital project has the potential to receive up to 700 points, either by meeting any of the critical criteria or by receiving the maximum score on all elements of the strategic criteria. All criteria apply equally to building and non-building projects.

## Critical Criteria

The following items are considered to be urgent, unavoidable and require action in the current legislative session. Projects will be evaluated on a yes/no basis. Projects that qualify as critical items will receive the maximum 700 points. Any project that receives 700 points under critical criteria will have the maximum allowable points and will not be scored using strategic criteria.

<u>Critical Life Safety Emergency</u>: Are there critical life safety emergencies which presently exist? Example -- a roof which has deteriorated to the point where it appears to be in danger of falling. "Critical emergency" is the key concept. Corrective action is urgent and unavoidable. Emergencies must be documented and immediate. If the request contains multiple sub-projects, the request will be scored based on the most prevalent condition or frequent characteristics. Qualified projects will receive 700 points.

<u>Critical Legal Liability</u>: Is there a known and substantiated legal liability which is currently pending? Example -- a local building inspector/fire marshal has issued a citation for corrective action and significant fines or closure of the building will occur unless immediate action is taken. "Critical" is a key concept here. Projects qualify on a yes/no basis with qualified projects receiving 700 points.

<u>Prior Binding Commitment</u>: A very narrow definition will be used. These are projects that require action in the current session due to previous legislative action which creates a binding commitment, and have no reasonable funding alternatives. The most relevant example would be for an appropriation to finish a construction project that has already been partially funded and is currently under construction.

Past examples - the 1993 legislature authorized specific projects in the bonding bill and defined total project costs, but only provided partial funding with the understanding that more project funds would be awarded in 1994 (e.g., combined sewer overflow, Bloomington ferry bridge, and Moose Lake prison).

Binding commitment is the key concept. Please note that previous predesign and design appropriations are not considered to be binding commitments for purposes of this scoring criteria, as discretion will be used in deciding whether such projects can or should proceed. Projects qualify on a yes/no basis with qualified projects receiving 700 points. See additional scoring criteria for previous predesign/design appropriations under *Projects Contained in the Six-Year Plan*.

## Strategic Criteria

Strategic criteria evaluates each project's strategic need and value. Projects may receive from 0 to 700 points depending upon how closely each project meets the following criteria:

<u>Strategic Linkage</u>: Has the agency articulated its strategic mission and six-year capital budget plan? How closely is the project linked to the agency's strategic plan, state statutes, or other identifiable state policies? Projects will be evaluated on a low/medium/high basis and may receive 0/40/80/120 points. Projects that are most directly linked with the primary mission and goals of the agency will receive the highest points.

Safety Concerns: A request might have elements that address life safety issues, but are not of the same urgency as critical emergencies previously described. Unlike critical emergencies in which action is unavoidable, projects with safety concerns are important requests but remain optional decisions. Examples might include: (1) expansion of a higher education campus for programmatic purposes that also includes some code-compliance activities; (2) security improvements at correctional facilities; and (3) clean-up of closed landfill sites. Projects will be evaluated on a low/medium/high basis of 0/35/70/105 points.

Customer Services/Statewide Significance: Points will be awarded as 0/35/70/105 depending on how the project will improve services for citizens of Minnesota as a whole. The concept of statewide significance is included to measure the geographic dispersion of the benefit (e.g., whether the project benefits the entire state and its citizens, a particular region of the state, or primarily a local community). Most capital projects will have some beneficial spillover effects across jurisdictions, but the central issue is which citizens or area will receive primary benefits and services.

Projects will be evaluated on both elements -- improvements to customer service and the geographic dispersion of benefits. Projects with statewide significance and which provide maximum customer service to the largest clientele base will receive the most points. Projects with regional significance or which provide a moderate level of customer service will receive medium points. Projects with local significance or modest improvements to customer service will receive fewer points.

A project considered to have statewide significance would have direct benefit to all Minnesota residents or would reasonably be interpreted as serving the entire state population. Regional significance applies to a project with direct and primary benefits to a particular region of the state or contiguous counties. A project with local significance would primarily benefit a specific municipality and/or residents of adjacent communities.

Examples of high customer service and/or statewide significance projects: (1) construction of a major new correctional facility to accommodate enhanced sentencing guidelines and increased caseloads from around the state; or (2) major improvements to Itasca State Park, one of Minnesota's premier and most highly-visited state parks. Statewide grant programs that are targeted to local communities but are significantly dispersed throughout the state may receive points for customer service and statewide significance.

Examples of projects with regional significance: (1) construction of a major metropolitan bridge as a new transportation improvement serving large numbers of metro area residents that contributes to metropolitan economic development and regional growth; (2) major expansion to a state university; or (3) establishment of a metropolitan-wide school desegregation grant program.

Examples of projects with primarily local significance: (1) construction of a municipal performing arts center; (2) a federal aid demonstration road project in any particular county; or (3) a construction loan for a local school building.

Agency Priority: Recognizing the importance of agency priority setting, this criteria provides 25/50/75/100 points based on the quartile in which the project falls within an agency's overall priority rankings. The total number of requests for each agency will be divided by four to establish agency quartiles.

User/Non-State Financing: 0 to 100 points will be awarded to projects depending on the percentage of user financing, non-state funding, private contributions or matching funds that can be applied against project costs. This is intended to provide an incentive for agencies to seek funding from sources other than state funds and state general obligation bonding. Agencies should be clear in identifying such matching funds when preparing their request. Past funding received from non-state sources for previous project phases will not receive points under this criteria.

Asset Management: A priority of the capital budget process is to encourage agencies and elected officials to concentrate on adequately funding the maintenance, repair and adaptive re-use of current state assets (i.e., committing necessary resources to preserving, using and re-using what we have now before proposing major expansion projects). This goal is generally referred to as "melting the capital iceberg" of deferred maintenance requests.

Assets include land, facilities, and equipment. Requests for funding of state deferred maintenance projects such as renewal of existing assets or facilities may receive 0/20/40/60 points on a low/medium/high basis.

An example of a project receiving high points for asset management might include major rehabilitation of an important historic site. Projects that are undertaken purely for purposes of asset management will receive more points, while mixed projects that combine a small amount of asset management with renovation for programmatic purposes will receive some, but fewer points.

Operating Savings or Efficiencies: In order to encourage and reward capital budget requests which produce operating savings or operating efficiencies, 0/20/40/60 points will be awarded to projects that can demonstrate a reduction in net operating costs (Building operating costs or salary expenses) or which result in increased efficiencies.

Projects Contained in the Six-Year Plan: This item will provide 25 points to projects that have been included *either* in previous agency six-year strategic plans have obtained previous state project funding. If *both* apply, projects may receive 50 points. Projects that have received past state funding but were not part of an agency's priority list may only receive 25 points.

Capital budget tracking identifies Governor's recommendations and legislative action in any current legislative session, as well as outyear tails for projects recommended in the current session or authorized in past sessions. Projects that receive points under this section are generally tails associated with projects approved in a previous legislative session. Capital tails are defined as split construction appropriations, future construction estimates associated with projects currently in the design phase or that received design funding, and multi-year non-building projects straight-lined at current funding levels.

**Capital Project Scoring Criteria for 2002 Requests**

| **CAPITAL PROJECT SCORING CRITERIA** | **RATINGS** | **VALUES** | **MAXIMUM SCORE** |
|---|---|---|---|
| | | | |
| **I. CRITICAL** | | | |
| Critical Life Safety Emergency | Yes/No | 700/0 | 700 |
| Critical Life Liability | Yes/No | 700/0 | 700 |
| Prior Binding Commitment | Yes/No | 700/0 | 700 |
| Maximum Critical Score | | | 700 |
| | | | |
| **II. STRATIGIC** | | | |
| Strategic Linkage | 0/1/2/3 | 0/40/80/120 | 120 |
| Safety Concerns | 0/1/2/3 | 0/35/70/105 | 105 |
| Customer Services/Statewide Significance | 0/1/2/3 | 0/35/70/105 | 105 |
| Agency Priority | 1-4 Quartile | 0/25/50/100 | 100 |
| Use and Non-State Financing | 0-100% | 0-100 | 100 |
| Asset Management | 0/1/2/3 | 0/20/40/60 | 60 |
| Operating Savings or Efficiencies | 0/1/2/3 | 0/20/40/60 | 60 |
| Contained in Statewide Six-Year Plan | Yes/No | 0/25/50 | 50 |
| Maximum Strategic Savings | | | 700 |
| **Maximum Score (All Criteria)** | | | **700** |

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# CHAPTER 6
# HOW TO PREPARE CAPITAL BUDGET FORMS

Capital budget forms serve as the basis for capital budget requests submitted by agencies, political subdivisions and higher education institutions. This chapter provides the specific capital budget forms and instructions necessary for their preparation. A "how-to" approach is used to guide readers through completion of these forms.

These instructions establish general policies governing preparation of FY 2002-2007 capital budget requests. Specific instructions are provided for each form. With the exception of any special requirements noted elsewhere, these instructions apply to all state agencies, political subdivisions and other institutions requesting and expending state capital funds. This includes all capital projects normally included in the state bonding bill, CAPRA items, HEAPR items, repair and betterment accounts financed by bond proceeds, and all other capital projects receiving any type of state funds.

In addition to this chapter which explains the type of information required on the forms, applicants should also obtain a copy of the ***FY 2002-2007 Capital Budget System Users Manual*** for information on how to load the requests into the on-line, computerized capital budget system (CBS).

Questions on capital budget policies, the process, schedule or related requirements may be directed to your agency's assigned executive budget officer in DOF.

Questions regarding access to, use of or problems with CBS may be directed to the Statewide Administrative Systems Help Line at (651) 215-0488 (metro) or 1-800-555-0488 (outstate). Select option #6 for capital budget technical assistance.

## Capital Budget Implementation

Minnesota Statute 16A gives the Department of Finance responsibility for managing the capital budget process. This authority is used to ensure general uniformity in the preparation of capital budget requests. The instructions, however, provide agencies considerable flexibility in preparing and documenting their six-year capital needs. Agencies have final responsibility for preparing reasoned and relevant information highlighting important policy decisions. Consistent preparation of requests is essential to the orderly review and analysis of agency proposals by DOF/Admin, the Governor and the Legislature.

The capital budget request process is carried out under the auspices of the Governor's office with implementation coordinated by the Department of Finance. This process requires open, two-way communication between DOF/Admin and staff in operating agencies. Agency staff are urged to contact DOF/Admin as necessary to clarify or interpret these policies and procedures.

Generally speaking, DOF will be most interested in the strategic focus of agency capital budget requests. This will include identification of the agencies' long-range strategic mission, goals, relationship of the agency capital budget to individual requests, and the impact of capital requests on the agency operating budget. This information is requested in the agency strategic planning summary and project narrative forms. All of these forms will be described in depth later in this chapter. Suffice to say, this information will be viewed most carefully by DOF and questions regarding these items should be directed to your assigned executive budget officer in the Department of Finance.

Similarly, the Department of Administration will be interested in certain sections also. It is anticipated that Admin will be most interested in the project cost, project detail, and project construction forms that discuss facility space needs, costs and scheduling. Agency questions regarding these items should be directed to the Department of Administration's Division of State Building Construction.

***Agencies must use the on-line capital budget system (CBS) to prepare requests. This is a fully interactive system in which agencies will enter and update all project narratives and numbers.***

***Local government units will submit requests in writing or via e-mail by the stated deadline dates. This info will be loaded into CBS by data operators in DOF and returned to the local applicants for their review.***

***All preliminary capital budget requests must be completed in CBS by 4:30 p.m. on June 15, 2001. All final capital requests must be completed in CBS by 4:30 p.m. on October 31, 2001.***

All capital requests are to be submitted in the formats shown in this chapter. Questions on format should be directed to your assigned executive budget officer in the Department of Finance. Each agency may approach preparation of budget narratives somewhat differently. Nonetheless, the process necessarily involves coordination and communication between the agency head, program directors and facility managers to ensure that narratives are complete, consistent and accurate. The agency head must review each proposal to ensure that the agency mission, capital plan and requests are clearly defined and reflect the agency's priorities and goals.

These instructions cover most budget preparation situations. However, special cases may arise in which these instructions are not applicable, or it is not clear how these instructions should be applied. In these instances, agencies should contact their assigned executive budget officer in DOF or their facility management counterpart in Admin for specific instructions.

## Assembly of Agency Capital Request Documents

When presented to the Legislature, capital budget forms will be printed from CBS and organized in the following sequence for each agency:

- Projects Summary
- Strategic Planning Summary

Then, for each project, in descending order of agency priority:

- Project Narrative
- Project Cost
- Project Detail
- Project Construction
- Project Analysis (to be completed by DOF/Admin)

## Projects Summary Form

The projects summary form lists all of the agency's project requests on one form. All projects requested during FY 2002-2007 are to be itemized according to the amount of state funding that is requested in each biennium. The biennium in which a project receives an appropriation should not be confused with expenditure cash flow estimates that may occur in subsequent biennia.

On this form, requests for a particular biennium should only identify the amount of ***state*** funds requested in that biennium (not total project costs, if multiple funding sources are available).

Projects that are requested in one biennium but have future phases, distinct multi-year commitments or tails that will require additional authorizations in the future should identify tails in all biennia.

Regarding cost estimates, agencies are advised to use the best project cost estimates available at the time of submitting requests. It is desirable to have good cost planning estimates available by the June 15, 2001 deadline, as this information will be forwarded to the Legislature by July 1, 2001. However, as more refined numbers become available throughout the summer, these cost estimates can then be improved prior to submittal of the Governor's capital budget on January 15, 2002.

Projects requesting action in the 2002 session must be ranked in priority order by the agency (on a 1-n basis) as required by state statutes (M.S. 16A.105, sec. 4, subd. 3a). Projects in the outyears of FY 2004-2007 should be identified but not prioritized, as funds will not be appropriated for these outyear projects until the 2004 or 2006 legislative sessions.

DOF/Admin analysis, statewide strategic score, Governor's recommendations, and Governor's planning estimates should be left blank by the agency and will be completed by DOF/Admin at a later date.

The capital budget system (CBS) will automatically calculate project and agency totals.

## Strategic Planning Summary Form (4 pages maximum)

The strategic planning summary form should be completed by all state agencies. Political subdivisions should not complete this form (similar information must be included in the project narrative form instead).

Information is requested regarding the agency's mission, influences affecting agency services and capital needs, a self-assessment of present agency facilities or capital programs, long-range strategic operating goals, the agency request preparation process, and a list of past capital projects.

Agencies are advised to concentrate heavily on the question, *"Describe the Agency's Long-Range Strategic Goals and Capital Budget Plan."* This is a pivotal element of the strategic planning summary and should be answered thoughtfully. In a nutshell, what is your agency's strategic mission and how will your capital plan and requests support this mission?

DOF/Admin is aware of the difficulties that some agencies may face when attempting to describe their strategic mission and long-range capital plan. Indeed, in some situations there may be a void in any well-articulated or generally-accepted statewide plan which would otherwise serve as a foundation for the agency's strategic plan. In other cases, an agency may not recently have gone through any formal strategic planning process, or may be undergoing great change and thus have difficulty charting a multi-year course.

These factors will present a challenge for agencies. Nonetheless, a central theme of capital budget reform efforts by the Legislature, the Governor and the executive branch has been to ensure that capital budget decisions be considered within the framework of statewide and agency strategic planning. Through preparation of the strategic planning summary form, agencies are requested to cooperate in this important strategic planning and capital analysis process.

Agencies must limit the length of their strategic planning summary form to four pages.

## Project Narrative Form (2 pages maximum)

The project narrative form provides an opportunity for agencies to present narrative and justification for their requests (for 2002 requests only). Agencies should provide a brief project description, rationale, and cite any impact on the agency's operating budget.

The first sentence under the project description heading should summarize the request. Example: *"This request for $10 million in state funds is to acquire land, predesign, design, construct, furnish and equip a new building for the department of such-and-such."*

This form should not be completed for outyear requests, as these projects will not be authorized in the 2002 session and will be considered during a future legislative session.

Impact on Agency Operating Budget serves in the capacity of a facilities note which summarizes the project's impact on the agency's operating budget over the upcoming six year period. This requirement is mandated by state statutes (M.S. 16A.105, sec. 5, subd. 5). This section should provide a brief narrative only; specific costs will be identified in the subsequent project detail form. Non-state agencies and grantees should specifically indicate who will own and operate the facility, and whether the project will require any state operating funds.

Agencies must limit the length of their project narrative form to two pages for each request. Exceptions must be approved by your assigned executive budget officer in DOF.

## Project Cost Form

The project cost form presents total project costs across all years (past, present and future) from all funding sources (state funds and others). Costs should be estimated in July 1, 2001 dollars and inflated based on the schedule provided in the appendix of this manual.

**Property Acquisition:** The use of funds to acquire land, easements, options, or land with buildings or other improvements. Please note that the purchase of options, while they may correctly be included on the project cost form, are not a bondable expense and must be paid from general fund cash.

**Predesign Fees**: The stage in the development of a project during which the purpose, scope, cost, and schedule of the complete project are defined. The fees consumed in preparation of predesign can range up to 1% or more of total project costs depending on the scale and complexity of the project.

**Design Fees:** The stage in the development of a project during which schematic, design development, and contract documents are produced. These design services include normal architectural, structural, mechanical and electrical engineering services that cover the schematic, design development, contract documents, bidding, and construction administration stages of a construction project. Reimbursable items, additional services and specialty consultants should be added.

- Schematic Design includes drawings and other documents illustrating the scale and relationship of project components.

- Design Development is the stage of the architect's services in which the architect prepares design development documents for submission to the owner for the owner's approval.

- Contract Documents include agreements between the owner and contractor, conditions of the contract (general, supplementary, and others), drawings, specifications, and addenda issued prior to execution of the contract, other documents listed in the agreement and modifications issued after execution of the contract.

- Construction Administration includes the responsibilities of the architect and owner's representative (of the state agency) during the construction stage.

**Project Management**: The process of planning, scheduling, and controlling the critical aspects of the owner's program. The quality, budget, and deadlines are protected through the use of state agency staff (owner administration) or outsourcing (construction management).

- State Staff Project Management are costs an agency charges to a construction project to cover internal state staff costs directly related to development of the project, typically for in-house architects and project managers.

- Non-state project management includes services provided to an owner of a project during the design and/or construction stage by a person or entity possessing requisite training experience. These services may include advice on the time and cost consequences of design and construction decisions, scheduling, cost control, coordination of contract negotiations and awards, timely purchasing of critical materials and long-lead items, and coordination of construction activities and contracts.

- Commissioning is a process verifying the implementation of design and construction, correcting project deficiencies, and recording warranties and guarantees. Building systems that are checked to see that they are functioning properly use less energy, experience less down time and require less maintenance, thereby saving money and ensuring peak building performance. Commissioning ideally begins in the design phase and extends through at least the first year of occupancy.

**Construction Costs:** The total cost or estimated cost to the owner of all elements of the project designed or specified by the architect. It does not include the compensation of the architect and the architect's consultants, the cost of land, rights-of-way, financing, or other costs which remain the responsibility of the Owner.

- Site and Building Preparation is work performed within the perimeter of the land parcel but beyond five feet from the existing structure or new construction that would include infrastructure/roads/and utilities.

- Demolition/Decommissioning is the cost for razing a facility or removing from service permanently. Hazardous material abatement associated with this action should be itemized separately under the hazardous material abatement category but included in the total cost of the project budget.

- Construction includes costs associated with construction of the facility.

- Infrastructure/Roads/Utilities are costs for the construction or enhancements to infrastructure, roads, grounds or utilities.

- Hazardous Material Abatement are any costs associated with the encapsulation and/or abatement of hazardous materials in structures associated with the construction project.

- Construction Contingency is an amount of money set aside for unforeseen conditions in a construction project. The amount can vary from 2% to 5% in new construction, to 5% to 10% in projects of a remodeling nature based on project size and complexity. Differences in localized costs, design contingencies, or other items should be factored into the general construction cost.

**One Percent for Art:** An allocation of one percent of the *construction costs* for state projects only (M.S. 16B.35). Allocations may be exempted or reduced depending on the project. Projects with construction costs of $500,000 or less are exempt.

**Relocation**: Moving costs associated with relocating from one facility to another, including swing space. Please note that relocation costs, while they may correctly be included on the project cost form, are generally not a bondable expense and typically must be paid from general fund cash.

**Occupancy:** The purpose for which a building, or part thereof, is used or intended to be used (Uniform Building Code).

- Furniture, Fixtures and Equipment (FF&E) are items not normally considered permanently attached to the structure but are considered a bondable cost in situations of new construction or major renovation. Office systems furniture is an example. Information technology systems are another example.

- Telecommunications (voice & data) are specialty equipment supplied by a separate contact from those of construction or FF&E.

- Security Equipment is usually supplied by a separate contract from those of construction or FF&E.

**Inflation Costs:** The rate of construction cost increases over the duration of the building project, calculated to the mid-point (month/year) of construction (see associated appendix in this manual). Inflation escalation applies to all cost components on the project cost form.

**Project Start/Finish**: The dates (month/year) that a project phase starts and stops. This information equates to a project schedule.

## Cost Classifications – Project Cost Form

| State Chart of Accounts | Examples |
|---|---|
| **1. Property Acquisition**<br>Land, Land Easements, Options<br>Land and Buildings | Acquisition Costs<br>Appraisal Fees<br>Building Surveys (condition and space)<br>Demolition/Stabilization<br>Land Surveys<br>Utility Connection Fees<br>Hazardous Materials Surveys<br>Geotechnical Investigations<br>Environmental Impact<br>Historic Preservation Requirements |
| 2. **Predesign Fees** | Fees to Prepare Scope and Budget<br>Visit Similar Projects<br>Staff Time Participation and Review<br>Analyze Soil Characteristics (geotechnical)<br>Optional Site and Market Studies |
| **3. Design Fees**<br>Schematic<br>Design Development<br>Contract Documents<br>Construction Administration | Architectural/Engineering Fees and Reimbursables<br>Special Consultants (food service, acoustics, code, signs/graphics, etc.) |
| **4. Project Management**<br>State Staff Project Management<br>Non-State Project Management<br>Commissioning<br>Other: (list) | Internal Staff Costs (state/agency/campus)<br>Other Administration (travel, meetings, etc.)<br>Geotechnical Investigations<br>Air Monitoring<br>Ground Water or Other Special Monitoring<br>Security<br>Advertising<br>Printing<br>Legal Fees<br>Plan Review Costs (building officials, special consultants)<br>Special Inspections/Quality Control<br>Building Permits<br>Temporary Utilities<br>Access Charges, SAC/WAC<br>Builders Risk Insurance<br>Financing Costs<br>Owner's Discretionary Contingency<br>Construction Management Fees<br>Construction Management Reimbursables |
| **5. Construction Costs**<br>Site & Building Preparation<br>Demolition/Decommissioning<br>Construction<br>Infrastructure/Roads/Utilities<br>Hazardous Material Abatement<br>Construction Contingency<br>Other: (list) | Building Permits<br>Access Charges, SAC/WAC<br>Demolition<br>Clearing and Grubbing<br>Sitework<br>Foundations<br>Floor System<br>Columns<br>Roof System<br>Exterior Wall |

| State Chart of Accounts | Examples |
|---|---|
| **Construction Costs** (Contd.) | Exterior Glazing<br>Interior Wall<br>Doors<br>Specialties<br>Equipment<br>Conveying Systems<br>Plumbing<br>Fire Protection<br>Heating, Ventilating and Air Conditioning<br>Electrical<br>General Conditions, Overhead and Profit<br>Management Fees<br>Design Contingency<br>Soil and Material Testing<br>Construction Contingency |
| 6. **One Percent for Art** | For construction costs only |
| 7. **Relocation** | Temporary Relocation (swing space)<br>Permanent Relocation<br>Moving Consultants/Contractors<br>Ground-breaking, Open House/Dedication |
| 8. **Occupancy**<br>Furniture, Fixtures and Equipment<br>Telecommunications (voice & data)<br>Security Equipment<br>Other: (list) | Movable Furnishings, Fixtures and Equipment<br>Telecommunications (voice & data)<br>Security Equipment (if not included in construction costs)<br>Artwork (other than percent for art)<br>Voice/Data Cabling (if not included in construction costs)<br>Signs (if not included in construction costs)<br>Keying and Security Programming<br>Occupancy Permit<br>Custodial Equipment<br>Final Cleaning |
| **Subtotal (Items 1 – 8)** | |
| 9. **Inflation** (Applied to Subtotal)<br>Midpoint of Construction (date)<br>Department of Finance Multiplier<br>Inflation Cost | Midpoint between arrival of site work crews and certificate of occupancy. |
| **Grand Total** | |

## Project Detail Form

The project detail form presents project data regarding:

**Capital Funding Sources:** This identifies the source(s) of project funding for all capital costs (past, current and future) as included in the project cost form.

When agencies begin entering data into CBS, they will notice that dollar amounts for state funds must be entered by specific state funding code(s). However, fund coding is not required when identifying funding from agency operating budgets, federal funds, local government funds, or private funds.

**Source of Debt Service Payments:** For projects receiving funds from state general obligation (G.O.) bonds, the source of debt service payments for the retirement of those bonds must be identified. The source of debt service payments on state G.O. bonds should be identified as either general funds or user financing. The amount and percentage of each should be identified. Unless otherwise specified, the source of funds for debt service payments is typically from the state's general fund.

This table only applies to requests for state general obligation bonds. It does not apply and does not need to be completed when funds other than state G.O. bonding are requested.

**Changes in State Operating Costs:** serves in the capacity of a facilities note and estimates the project's impact on the agency's operating budget over a six-year period. This requirement is mandated by state statutes. Changes in both direct and indirect costs should be identified for the current and future biennia including but not limited to staffing costs, program/service costs, and increased building operation and utility expenses. Anticipated repair and maintenance costs should also be included.

In the past, base budget data was requested. This is no longer true. Agencies need only specify *changes* to operating costs, and need not specify base budgets. Non-state agencies and local grantees should not complete this section unless their project impacts the state operating budget or will result in future state operating budget requests.

The column entitled *2002-2003 Operating Costs* should identify changes to the agency's budget if the project is authorized, with additional costs anticipated in the 2002-2003 biennia.

- Compensation (Program & Building Operations) refers to all the direct and indirect program and building operations staffing costs associated with this request. (This cost information includes but is not limited to the following MAPS object codes lAO-lEO.)

- Other Program Related Expenses other than compensation costs. (This cost information includes but is not limited to the following MAPS object codes: 2C0, 2D00, 2D30-2D90, 2E0, 2F0, 2G0, 2H0, 2J0, 2K00, 2K30, 2K60, 2K70, 2K80, 2L0 2M0, 2N0, 2P0, 2Q0, 2R0, 2S0, 4A0, 4B0, 4C0, SDO, 6A0, 680, 6C0, 6D0.

- Building Operating Expenses are costs related to the operations of the physical building such as maintenance, utilities, security, repair and alteration, and any other costs associated with the building operation. (This cost information includes but is not limited to the following MAPS object codes: 2M0$_1$ 2A30, 2A90, 2B0, 2Db, 2D20, 2D90, 2300, 2K00, 2K30, 21(60, 21(70, 2K80, 21(90, 2M00, 2M50, 2800, 2820, 2S90.)

- Building Repair and Replacement Expenses Expenses accrued or anticipated for building repair.
- State-Owned Lease Expenses are the rents paid for leases of space in buildings under the custodial control of the Department of Administration. Rates for leasing space in these buildings are set by the Department of Administration Plant Management Division and approved by the Department of Finance (this cost information includes but is not limited to MAPS object code 2A10.)
- Nonstate-Owned Lease Expenses are all the costs related to a commercially leased facility. This would include the lease (rental) cost, tenant (leasehold) improvements, security and any other costs associated with an agency leasing a commercial facility (this cost information includes but is not limited to the following MAPS object codes 2A00, 2A20, 2A30, 2A40, 280).
- Revenue Offsets are new or additional revenues that are a direct result of the project's construction or renovation. This revenue information includes but is not limited to user fees and increased gate receipts. This item is most prevalent in non-state or local grant facilities.
- Change in F.T.E**.** are changes in the number of full time equivalent employees associated with this request.

**Statutory and Other Legal Requirements:** This section identifies the requirements of Minnesota statutes that apply to capital projects *after* the project is authorized in the bonding bill or other state appropriation bills. These requirements are described more fully in Chapter 4. The Department of Finance and Administration will work closely with agencies in reviewing and completing this section. If agencies are in doubt how to complete this info, leave it blank and DOF/Admin will complete it.

**Previous State Capital Appropriation Citations:** If agencies have received any previous state funding for this project, the legal citation for the appropriation and project amount must be identified. If agencies have reallocated funds from this operating budget to pay for all or some portion of previous expenses, they need not identify a citation for their operating appropriation.

## Project Construction Form

The project construction form identifies major types of space included in a building project request. This information must be provided for projects that have requested 2002 construction funds as included in the project cost form. Projects that are not requesting construction funds in 2002 should not complete this form.

Applicants need only identify cost and square footage of major types of space. The number of space types will vary depending on the scale and complexity of each project. Costs and square footage of the following space types should be identified, as applicable:

- Monumental office buildings
- Office buildings
- Computer facilities
- Library facilities
- Auditorium/Theater
- Cafeteria/food service
- Medical facilities
- Parking structures
- Research labs
- Warehouse facilities
- Laboratories
- Higher education teaching/classrooms
- Office/administration
- Teaching/laboratories
- Maintenance facilities
- Heating/cooling plants
- Utility infrastructure facilities
- Service areas

Costs should be identified for repair and renovation activities, as well as for new construction, as necessary.

Only *construction cost* data from the project cost form should be entered on the project construction form. Do **not** enter cost data on the project construction form for costs related to property acquisition, utility costs, predesign, design, project management, relocation, occupancy, or inflation.

## Project Analysis Form

The project analysis form is presented for illustrative purposes only. It should be left blank by agencies and will be completed by DOF/Admin at a later date.

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**AGENCY CAPITAL BUDGET REQUEST**
**Fiscal Years 2002-2007**
**Dollars in Thousands ($137,500 = $138)**



| Project Title | 2002 Agency Priority Ranking | Agency Project Requests for State Funds ($ by Session) | | | | Statewide Strategic Score | Governor's Recommendations 2002 | Governor's Planning Estimates | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2002 | 2004 | 2006 | Total | | | 2004 | 2006 |
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| **Total Project Requests** | | | | | | | | | |

**AGENCY MISSION STATEMENT:**

**TRENDS, POLICIES AND OTHER ISSUES AFFECTING THE DEMAND FOR SERVICES, FACILITIES, OR CAPITAL PROGRAMS:**

**DESCRIBE THE AGENCY'S LONG-RANGE STRATEGIC GOALS:**

**PROVIDE A SELF-ASSESSMENT OF THE CONDITION, SUITABILITY, AND FUNCTIONALITY OF PRESENT FACILITIES, CAPITAL PROJECTS, OR ASSETS:**

**AGENCY PROCESS USED TO ARRIVE AT THESE CAPITAL REQUESTS:**

**AGENCY CAPITAL BUDGET PROJECTS DURING THE LAST SIX YEARS (1996-2001):**

**2002 STATE APPROPRIATION REQUEST:**

**AGENCY PROJECT PRIORITY:**

**PROJECT LOCATION:**

**PROJECT DESCRIPTION:**

**IMPACT ON AGENCY OPERATING BUDGETS (FACILITIES NOTES):**

**OTHER CONSIDERATIONS:**

**PROJECT CONTACT PERSON, TITLE, ADDRESS, PHONE, FAX, AND E-MAIL:**

# AGENCY CAPITAL BUDGET REQUEST
## Fiscal Years 2002-2007
## Dollars in Thousands ($137,500 = $138)

**Project Cost**

| TOTAL PROJECT COSTS<br>All Years and All Funding Sources | Project Costs<br>All Prior Years | Project Costs<br>FY 2002-03 | Project Costs<br>FY 2004-05 | Project Costs<br>FY 2006-07 | Project Costs<br>All Years | Project Start<br>(Month/Year) | Project Finish<br>(Month/Year) |
|---|---|---|---|---|---|---|---|
| **1. Property Acquisition** | | | | | | | |
| Land, Land Easements, Options | | | | | | | |
| Land and Buildings | | | | | | | |
| **2. Predesign Fees** | | | | | | | |
| **3. Design Fees** | | | | | | | |
| Schematic | | | | | | | |
| Design Development | | | | | | | |
| Contract Documents | | | | | | | |
| Construction Administration | | | | | | | |
| **4. Project Management** | | | | | | | |
| State Staff Project Management | | | | | | | |
| Non-State Project Management | | | | | | | |
| Commis sioning | | | | | | | |
| Other Costs | | | | | | | |
| **5. Construction Costs** | | | | | | | |
| Site & Building Preparation | | | | | | | |
| Demolition/Decommissioning | | | | | | | |
| Construction | | | | | | | |
| Infrastructure/Roads/Utilities | | | | | | | |
| Hazardous Material Abatement | | | | | | | |
| Construction Contingency | | | | | | | |
| Other Costs | | | | | | | |
| **6. One Percent for Art** | | | | | | | |
| **7. Relocation Expenses** | | | | | | | |
| **8. Occupancy** | | | | | | | |
| Furniture, Fixtures and Equipment | | | | | | | |
| Telecommunications (voice & data) | | | | | | | |
| Security Equipment | | | | | | | |
| Other Costs | | | | | | | |
| **SUBTOTAL:** | | | | | | | |
| **9. Inflation** | | | | | | | |
| Midpoint of Construction | | | | | | | |
| Inflation Multiplier | | | | | | | |
| Inflation Cost | | | | | | | |
| **GRAND TOTAL** | | | | | | | |

# AGENCY CAPITAL BUDGET REQUEST
## Fiscal Years 2002-2007
## Dollars in Thousands ($137,500 = $138)

**Project Detail**

| CAPITAL FUNDING SOURCES | Prior Years | FY 2002-03 | FY 2004-05 | FY 2006-07 | TOTAL |
|---|---|---|---|---|---|
| State Funds: | | | | | |
| | | | | | |
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| **State Funds Subtotal** | | | | | |
| Agency Operating Budget Funds | | | | | |
| Federal Funds | | | | | |
| Local Government Funds | | | | | |
| Private Funds | | | | | |
| Other | | | | | |
| **TOTAL** | | | | | |

| CHANGES IN STATE OPERATING COSTS | Changes in State Operating Costs (Without inflation) | | | |
|---|---|---|---|---|
| | FY 2002-03 | FY 2004-05 | FY 2006-07 | FY 2008-09 |
| Compensation – Program and Building Operation | | | | |
| Other Program Related Expenses | | | | |
| Building Operating Expenses | | | | |
| Building Repair and Replacement Expenses | | | | |
| State-Owned Lease Expenses | | | | |
| Nonstate-Owned Lease Expenses | | | | |
| Expenditure Subtotal | | | | |
| Revenue Offsets | | | | |
| **TOTAL** | | | | |
| Change from Current FY 2002-03 | | | | |
| Change in F.T.E. Personnel | | | | |

| **PREVIOUS STATE CAPITAL APPROPRIATIONS FOR THIS PROJECT (Legal Citations)** Laws of Minnesota (year), Chapter, Section, Subdivision | ***Amount*** |
|---|---|
| | |
| | |
| | |
| **Total** | |

| **SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS** (for bond-financed projects) | **Amount** | **Percent of Total** |
|---|---|---|
| General Fund | 0 | 0% |
| User Financing | 0 | 0% |

| **STATUTORY AND OTHER REQUIREMENTS** Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill. | |
|---|---|
| | MS 16B.335 (1a): Construction/Major Remodeling Review (Legislature) |
| | MS 16B.335 (1b): Project Exempt From This Review (Legislature) |
| | MS 16B.335 (2): Other Projects (Legislative Notification) |
| | MS 16B.335 (3): Predesign Requirement (Administration Dept) |
| | MS 16B.335 (4): Energy Conservation Requirements (Agency) |
| | MS 16B.335 (5): Information Technology Review (Office of Technology) |
| | MS 16A.695: Public Ownership Required (as per Finance Dept) |
| | MS 16A.695: Use Agreement Required (as per Finance Dept) |
| | MS 16A.695: Program Funding Review Required (Agency) |
| | Matching Funds Required (as per agency request) |
| | Project Cancellation in 2007 (as per Finance Dept) |

**AGENCY CAPITAL BUDGET REQUEST**
**Fiscal Years 2002-2007**
**Dollars in Thousands ($137,500 = $138)**

**Project Construction**

| CONSTRUCTION TYPE OF SPACE | EXISTING | NEW CONSTRUCTION | | | REMODELED | | | RENEWAL (Asset Preservation) | | | TOTAL COST (in $000) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| List Major Type of Space (Office, Lab, Ramp, etc.) | Gross Sq. Feet | Gross Sq. Feet | Cost (in $000) | Cost Per Sq. Foot (in $) | Gross Sq. Feet | Cost (in $000) | Cost Per Sq. Foot (in $) | Gross Sq. Feet | Cost (in $000) | Cost Per Sq. Foot (in $) | |
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| **TOTAL** | | | | | | | | | | | |

This Form is for Reporting and Analysis of *Construction Costs* only (constructional costs in item5 on the Project Cost Form).
No other cost items from the Project Cost Form should be included on this form

Dollars in Thousands ($137,500 = $138)

## Department of Administration Analysis:

## Capital Area Architectural and Planning Board Analysis:

## Department of Finance Analysis:

## Governor's Recommendation:

| STATEWIDE STRATEGIC SCORE | | |
|---|---|---|
| **Criteria** | **Values** | **Points** |
| Critical Life Safety Emergency – Existing Hazards | 0/700 | |
| Critical Legal Liability – Existing Liability | 0/700 | |
| Prior Binding Commitment | 0/700 | |
| Strategic Linkage – Agency Six Year Plan | 0/40/80/120 | |
| Safety/Code Concerns | 0/35/70/105 | |
| Customer Service/Statewide Significance | 0/35/70/105 | |
| Agency Priority | 0/25/50/75/100 | |
| User and Non-State Financing | 0-100 | |
| State Asset Management | 0/20/40/60 | |
| State Operating Savings or Operating Efficiencies | 0/20/40/60 | |
| Contained in State Six-Year Planning Estimates | 0/25/50 | |
| **Total** | **700 Maximum** | |

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The following has been prepared as an example of the project requests from the Department of Administration.

It is included as a hypothetical example for illustrative purposes only, to be used as a guide for agencies when preparing their project requests.

**AGENCY CAPITAL BUDGET REQUEST**
**Fiscal Years 2002-2007**
**Dollars in Thousands ($137,500 = $138)**

| Project Title | 2002 Agency Priority Ranking | Agency Project Requests for State Funds ($ by Session) | | | | Statewide Strategic Score | Governor's Recommendation 2002 | Governor's Planning Estimate | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2002 | 2004 | 2006 | Total | | | 2004 | 2006 |
| New Finance Department Building | 1 | $2,100 | $30,000 | $0 | $32,100 | 450 | $2,100 | $30,000 | $0 |
| Electrical Utility Infrastructure, Phases 4-6 | 2 | 2,500 | 500 | 500 | 3,500 | 310 | 2,500 | 500 | 500 |
| Health Building Renovation | 3 | 4,300 | 0 | 0 | 4,300 | 425 | 4,300 | 0 | 0 |
| Asset Preservation | 4 | 9,000 | 9,000 | 9,000 | 27,000 | 385 | 5,000 | 5,000 | 5,000 |
| Capitol Security Renovation | 5 | 1,000 | 0 | 0 | 1,000 | 280 | 1,000 | 0 | 0 |
| Capitol Project 2005 | 6 | 6,600 | 0 | 0 | 6,600 | 420 | 3,300 | 0 | 0 |
| 321 Grove Street Renovation | 7 | 23,693 | 0 | 0 | 23,693 | 300 | 0 | 0 | 0 |
| General Property Acquisition | 8 | 10,000 | 10,000 | 10,000 | 30,000 | 300 | 0 | 0 | 0 |
| Capitol Area Predesigns | 9 | 800 | 0 | 0 | 800 | 255 | 0 | 0 | 0 |
| State Government Center - Duluth (Predesign) | | 0 | 500 | 0 | 500 | | 0 | 0 | 0 |
| Ely Revenue Building Renovation | | 0 | 4,500 | 0 | 4,500 | | 0 | 0 | 0 |
| State Government Center - Mankato | | 0 | 2,500 | 41,666 | 44,166 | | 0 | 0 | 0 |
| Capitol Interior Predesign | | 0 | 500 | 0 | 500 | | 0 | 0 | 0 |
| Statewide Building Access (ADA) | | 0 | 0 | 10,000 | 10,000 | | 0 | 0 | 0 |
| State Government Center - Hibbing | | 0 | 0 | 4,500 | 4,500 | | 0 | 0 | 0 |
| **Total Project Requests** | | $59,993 | $57,500 | $75,666 | $193,159 | | $18,200 | $35,500 | $5,500 |

## AGENCY MISSION STATEMENT:

The mission of Minnesota's Department of Administration (Admin) is "to improve the quality and productivity of Minnesota government." We provide our customers in state and local agencies with business management and administrative services that enable those agencies to better serve the public. Admin is responsible for providing high quality, efficient, responsive, innovative, and cost-effective property-related services for safe and healthy working environments. Included is the provision of office space whether in state owned or privately owned leased facilities.

## TRENDS, POLICIES AND OTHER ISSUES AFFECTING THE DEMAND FOR SERVICES, FACILITIES, OR CAPITAL PROGRAMS:

As state agency programs expanded in the 1970s, agency operations became dispersed and fragmented in numerous privately owned leased facilities. In the 1980s, Admin focused on consolidating and co-locating state agency operations for improved operating efficiency and delivery of services. Prior to the construction of the Harold E. Stassen Office Building for the Department of Revenue, the last executive branch offices constructed in the Capitol complex were the Administration Building in 1967 and the Veterans Service Building addition in 1972. The Capitol Square Building, acquired in 1970 and scheduled for demolition in 1999, was the last office building purchased by the state.

Since the 1970s, the state has relied on meeting state agency office space needs by leasing space in privately owned facilities. Today, state operations such as the departments of Children, Family and Learning, Agriculture, Human Services, Natural Resources, Corrections, Commerce, Labor and Industry, Public Safety, Public Services, and several others formerly housed in the Capitol complex are now located away from the seat of government in privately owned leased facilities.

**Long-Range Strategic Plan for Locating State Agencies:**

To better manage the state's office space, Admin developed a long-range *Strategic Plan for Locating State Agencies* (Strategic Plan) in the metropolitan area in 1993. This was in accordance with the 1992 Capital Budget Reform report to the Legislature recommending the development of master plans for each state-owned campus. Laws 1994, Chapter 643, Section 39 require Admin to regularly update the long-range *Strategic Plan for Locating State Agencies* and to follow the plan in assigning and reassigning space to agencies. The Strategic Plan was last updated in 1995.

- Based on state agencies' long-range program needs and estimates, state agency rate of growth was projected over the next 20 years with an immediate need for an additional 300,000 square feet.
- Since the Strategic Plan was released in 1994, the state has leased an additional 350,000 usable square feet of office space in downtown St. Paul.
- The departments of Health, Corrections, and Human Services have already exceeded their growth projections due to new and expanded programs.
- The current space inventory is comprised of 1.2 million square feet of state-owned and 2.9 million square feet in privately-owned leased office space in the 7-county metropolitan area.
- Since the late 1970s, the amount of office space leased has more than doubled, while the amount of state owned space has remained relatively constant.

By the year 2013, state agency space requirements are estimated to total between 5.0 million to 5.9 million square feet of space in the 7-county metropolitan area. This is an increase of 900,000 to 1.8 million square feet over the 4.1 million square feet state agencies currently occupy in state owned facilities under Admin's custodial control and in privately owned leased facilities. The average growth would be between 60,000 to 105,000 square feet per year.

**Own versus Leasing:**

Various studies, including the 1996 Legislative Coordinating Commission study, all indicate that it is more economical in the long term to own rather than lease office space. If the state continues to meet its future space needs only by leasing privately owned office space, the annual cost would more than double over 20 years based on the current lease rate with no adjustment for escalation in lease rates.

The state currently occupies 1.5 million square feet of state owned space and 3.1 million square feet in privately owned leased office space in the 7-county metropolitan area.

The cost of leasing office space in the metropolitan area is about $43 million annually or an average rent of $14.10 per square foot. In 1994, the cost of leasing was about $27 million annually or $13.32 per square foot and in 1996, the cost of leasing was about $37 million annually or $13.55 per square foot.

By the year 2013, it is Admin's objective to change the ratio of space it leases and owns. The goal is to locate up to 70% of the state's office space in state owned buildings to realize the long-term cost savings of ownership, and for flexibility purposes, locate 30% of the space in privately owned facilities. However, the state now leases 67% of its office space and owns 33%.

**Property Acquisition:**

Admin is acquiring additional property to ensure land is available at the lowest cost possible, to meet state expansion needs in the future, and to strengthen the image of the State Capitol as the central location for state government. By increasing the amount of state owned space, the state has the opportunity to control its long-term costs and acquire equity in the buildings it occupies. The Strategic Plan recommends ownership in the Capitol area. Admin will:

- Pursue and analyze on a case-by-case basis such options as constructing, purchasing, or leasing facilities to provide adequate space for state government operations and to take advantage of real estate market opportunities.
- Analyze other alternatives and potential joint development projects, which may be outside the Capitol area.

Lack of acquisition funds has placed Admin at a disadvantage in the acquiring of desired property. It is Admin's experience that property owners prefer to negotiate a sale instead of an option for a possible sale in the future.

**Information Technology:**

Although new technology will provide some decentralization of agencies, technology will also support and increase the efficiency of central management functions. Telecommuting, telecopying, and electronic information storage help reduce travel demand and document storage space. However, the expansion of personal computer use and associated training and teleconferencing facilities will offset much of the space savings. Until the state has gained more experience in these areas, a significant reduction in agency headquarters functions and space needs is not anticipated.

Each state agency will continue to identify its telecommuting opportunities so state facilities are designed with the flexibility to respond to rapid technological advances. In accordance with Minnesota Statutes 16B.335, agencies are required to review the implication of using information technology to decentralize and/or to reduce office space needs.

**Code Compliance/Life Safety:**

Bringing state owned buildings in the Capitol area into compliance with building codes, fire and life safety codes, and Americans with Disabilities Act (ADA) is an ongoing effort. Based on the volume of work to be accomplished and established priorities, Admin will request funds to meet these requirements in several phases.

**DESCRIBE THE AGENCY'S LONG-RANGE STRATEGIC GOALS:**

Admin is taking a leadership role through a strategic focus on facilities management. The selection of office space whether in a state owned or a leased facility will be based on an economic analysis and agency program requirements. Improved maintenance of state owned facilities will stem from implementation of a planned maintenance program that ensures critical building improvements are made to protect the state's building assets. With respect to statewide responsibilities, Admin will continue to request funds to administer the Capital Asset Preservation and Replacement Account (CAPRA) and the Statewide Building Access programs.

Admin developed a long-range *Strategic Plan for Locating State Agencies* in the metropolitan area. This is a flexible plan to guide where state agencies are located in the future with the financing methods used to acquire the space needed for state agencies. The goals of this plan are to:

- Achieve economy and efficiency in the location, development, and financing of leased and owned state space.
- Ensure the integrity and design quality of state facilities located in the Capitol area and throughout the metropolitan area and preserve the dignity and heritage of the Capitol area.
- Provide efficient flexibility in the Strategic Plan to adapt effectively to change in space needs, the market place, and funding restraints.
- Encourage alternate forms of transportation that increase accessibility and mobility, decrease parking conflicts and congestion around state facilities, and ensure a safer and more convenient environment for pedestrians, transit patrons, and motorists.
- Take a leadership role in environmental stewardship and sound regional growth management.

To realize the long-term cost savings of ownership, Admin's objective is to change the ratio of space it leases and owns with the goal of locating up to 70% of the state's office space in state owned buildings and locating 30% of the space in privately owned facilities by the year 2013. Assuming a moderate rate of growth, the amount of privately owned leased office space will decline from 2.0 million square feet to 1.8 million square feet while the amount of owned office space will increase from 1.8 million square feet to an estimated 4.1 million square feet. To achieve this increase in ownership of office space, Admin will embark on an aggressive construction and property acquisition plan requiring a significant commitment of state resources.

Whenever appropriate, the office buildings will be designed for general office use to provide greater flexibility in meeting information technology and agency program needs.

In addition to increasing the state's ownership of office space through construction, the Strategic Plan provides for increasing office space through the purchase of privately owned leased facilities housing state agency operations. Admin will use The Automated Prospectus System (TAPS), a computer program developed for the U.S. General Services Administration (GSA), to do case-by-case analysis of the proposed acquisitions and determine the financing method that is economically beneficial to the state. TAPS uses the life cycle costing method to calculate and compare the costs of providing office space through leasing, building, buying, or adapting existing facilities.

The Strategic Plan can be adjusted periodically to reflect significant implementation actions taken and to accommodate government reorganization actions.

**PROVIDE A SELF-ASSESSMENT OF THE CONDITION, SUITABILITY, AND FUNCTIONALITY OF PRESENT FACILITIES, CAPITAL PROJECTS, OR ASSETS:**

**Office Space:**

The demands on state government have outgrown new state office construction during the past 20 years. As a result, only 29% as compared to 48% (1994) of the state's business is now conducted in buildings owned and managed by the state in the Twin Cities metropolitan area.

Studies indicate that the state's dependence on leasing privately owned office space is a costly and inefficient method of providing office space over the long term. Short-term leases with escalating rent clauses are not economical long-term uses of state funds. The state currently expends about $43 million annually for privately owned space in the metropolitan area.

Admin will need to continue to make land and property acquisitions that are economically sound investments for the state. Acquisition of properties in other locations is necessary for the efficient delivery of state agency programs and services to the public. This includes analysis of any property that becomes available for acquisition by the state but is not specifically identified in the Strategic Plan.

**Asset Preservation:**

Admin seeks to provide environmentally safe facilities and will continue to renovate those facilities that are below occupancy standards. Input received from maintenance personnel as well as from state agencies on facility improvements or space requirements helps Admin to maintain or provide appropriate facilities so state agencies can effectively deliver services to the public. Through the use of technology, Admin can better analyze and prioritize maintenance, renovation, and code related project costs.

Facilities under Admin's custodial control are aging with an average age of 51 years for 18 facilities. There are 8 buildings with an average age of 81 years, 7 buildings with an average age of 37 years, and 3 buildings with an average of 6 years. It is important for the state to protect its investments in state facilities. Many of these facilities have reached the point where the state needs to reinvest in the facility to prevent deteriorating to the point where it becomes costly to make the improvements.

Several buildings in the Capitol complex have had building code and life safety deficiencies, which were identified over 10 years ago. In some situations, the deficiencies were resolved only through major renovation. In other cases, interim steps have been taken until adequate funds are obtained to properly correct the deficiencies and meet code. There are structural problems that need addressing at the following facilities: State Office Building, Health Building, Ford Building, Centennial Building, Veterans Services Building, and the Administration Building Parking Ramp.

Maintenance and Leasehold (M & L) funds collected through state agency rental leases cover operating costs and most routine building maintenance on state owned buildings in the Capitol complex. However, the M & L funds are inadequate and are not intended to cover the cost of major building improvements such as replacing the heating, ventilating, and air conditioning (HVAC) systems, major renovation of office space, or roof replacement.

Air quality problems are a source of concern to building occupants. The HVAC systems in the Administration, Veterans Service, and Health buildings are antiquated and past due for modification or total replacement. It is Admin's plan to renovate, where appropriate, the buildings in the Capitol complex to bring them up to present-day standards and codes. Asset preservation funds are critically needed to maintain the buildings in the Capitol complex.

In its 1992 report to the legislature on capital budget reform, Admin recommended that part of state agency rent be placed in a fund for major repairs and replacements not covered under the current rent structure. Admin's Rent Report to the legislature in March of 1995 recommended establishing a "reserve for repairs" for repair and maintenance of facilities under Admin's custodial care. Typical projects would include roofs, major electrical, plumbing and mechanical projects, elevators, asbestos removal, tuckpointing, window replacement, structural repairs, tunnels, life safety, fire safety, and code compliance.

In 1997, the legislature authorized Admin to use CAPRA and Asset Preservation funds recovered through rent for asset preservation projects. In 1999, the legislature authorized Admin to use depreciation funds recovered through rent for asset preservation effective 7-1-2001.

The Plant Management Division's internal service fund for rent will continue to fund routine maintenance and leasehold items such as painting, carpeting, minor roof patching, and minor mechanical/electrical repairs through the current rent structure. The establishment of a planned maintenance program will give Admin the ability to better maintain the buildings in the Capitol complex using life cycle costing methods to schedule improvements that will preserve the state's capital assets and provide environmentally safe buildings.

Asset preservation funds improve Admin's ability to maintain the buildings in the Capitol complex by planning and budgeting for future cyclical repairs and replacements that extend the useful life of the facilities and reduce the need for long-term capital expenditures for deferred maintenance. The 1999 authorization to use depreciation funds beginning in F.Y. 2002 will be highly beneficial for maintaining state facilities in the Capitol complex.

**AGENCY PROCESS USED TO ARRIVE AT THESE CAPITAL REQUESTS:**

A legislative appropriation funded the development of the long-range *Strategic Plan for Locating State Agencies*. Consultants were hired to develop this plan with input from state agencies, legislators, local government, and special interest groups. The plan has the flexibility to be updated as changes occur.

This capital budget request continues implementation of the Strategic Plan, which will be phased over the next 20 years. The new development aspects of the Strategic Plan are integrated with the ongoing capital improvements that are needed for the buildings Admin manages in the Capitol complex. This master plan guides Admin's capital budget requests.

High priority is given to any project that is mandated by law, where life safety improvements are imperative to meet code requirements, where major improvements are needed to preserve the state's investment in its building assets, and where there are long term economic advantages to the state by increasing ownership of office space through either construction or purchase. In preparing the capital budget requests, Admin uses in-house staff, consultants, or a combination thereof to analyze improvements needed, to develop cost estimates, and to determine the best course of action for recommendation to the Governor and the legislature.

**AGENCY CAPITAL BUDGET PROJECTS DURING THE LAST SIX YEARS (1996-2001):**

- **Ongoing Projects:**

  Statewide CAPRA
  Statewide Building Access projects

- **Projects in Process:**

  1999 Appropriation:
  - Demolish Capitol Square Building

  1998 Appropriation:
  - Predesign, design, and construct new Ely Revenue Building
  - Predesign new facility space for Department of Public Safety
  - Property Acquisition (Rice and University)
  - Design new Bureau of Criminal Apprehension offices and labs – St. Paul
  - Predesign satellite Bureau of Criminal Apprehension facility – Bemidji
  - Relocate Dahl House

- **Projects Completed:**

  1998 Appropriation:
  - Upgrade primary electrical distribution system in Capitol complex
  - Upgrade mechanical infrastructure (chiller)

  1997 Appropriation:
  - Renovate Capitol Building cafeteria
  - Design-Build new Revenue Building and Parking Structure

  1996 Appropriation:
  - Renovate Capitol Building--NE terraces, dome and lantern
  - Design and construct Korean War Memorial
  - Construct new Robotic Technical Training Center
  - Negotiate property acquisition within the Capitol area (Rice and University)
  - Renovate Transportation Building, Phase IV
  - Renovate Capitol Area Elevators--Centennial and State Office Building
  - Acquire land for Support Services

**2002 STATE APPROPRIATION REQUEST:** $2,100,000

**AGENCY PROJECT PRIORITY:** 1 of 9

**PROJECT LOCATION:** Capitol Complex -- St. Paul

**--------- [FICTITIOUS EXAMPLE FOR ILLUSTRATIVE PURPOSES ONLY] ------------**

**PROJECT DESCRIPTION AND RATIONALE:**

State funding of $2.1 million is requested to design a new building for the Department of Finance, to be located in the Capitol complex area.

The facility will be known as the Charlie Bieleck Memorial Finance Building. Land acquisition funds were previously approved in 1996 and predesign funds were approved in 1998 for this project. After design is completed, $30 million in state funds will be requested in the 2004 legislative session for construction costs, to match an additional $5 million in federal funds.

The final project will relocate the Department of Finance into a new facility of 104,000 square feet that provides an additional 20,000 square feet of general office space, with a related parking ramp. The department has been located on the 4th floor of the Centennial Office Building in St. Paul since 1989 and has outgrown their current space. No expansion space is currently available on any other floors in the building. A space utilization study conducted last year by Andrews & Schowalter Associates concluded that crowded conditions in the existing space are far below national building standards.

This initiative includes space for creation of a new government accounting compliance center to accommodate changing service requirements mandated by the federal government. The 20,000 square feet of proposed expansion space is for the new compliance center. The new center will substantially improve oversight of state agency and local government financial operations. Because the federal government now mandates these services, Congress has authorized $5 million in federal matching funds in 2004 for project construction costs.

The project predesign has been completed and approved by the Department of Administration. Land acquisition is expected to occur within the next three months. A suitable site has been identified in the Capitol complex just west of the Ingison Performing Arts Center on University Avenue.

An expanded Finance facility will allow the department to remain consolidated rather than becoming fragmented in separate locations. By owning rather than leasing space, the project complies with a broader interest of the state in maximizing the ratio of owned vs. leased facilities.

The new building will also provide enhanced visibility for the Department of Finance, better public access, and improved customer parking.

Vacated space in the Centennial building will be retrofitted and reassigned to various state boards and commissions that are currently located in more expensive private lease space elsewhere in St. Paul. Retrofitting the vacant space will provide a timely opportunity to modernize the 4th floor and improve its general appearance and functionality.

**IMPACT ON STATE AGENCY OPERATING BUDGETS (FACILITIES NOTE):**

After the construction appropriation is authorized in the 2004 session with agency relocation to be completed by January 2006, 15 additional FTEs will be required to perform duties associated with the new government accounting compliance center. Additional plant management charges will accrue due to an expansion in gross square footage and debt service costs charged to the agency. Partial costs will begin in F.Y. 2006 with full costs in F.Y. 2007.

**OTHER CONSIDERATIONS:**

None.

**PROJECT CONTACT PERSON, TITLE, ADDRESS, PHONE, FAX, AND E-MAIL:**

John Doe, Project Manager
Department of Administration, Division of State Building Construction
Suite 300, Sausen Plaza
1501 Wheelock Way
Barrypleasantville, MN 55155
(ph) 651-296-1700
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Email: john.doe@state.mn.us

**AGENCY CAPITAL BUDGET REQUEST**
**Fiscal Years 2002-2007**
**Dollars in Thousands ($137,500 = $138)**



| **TOTAL PROJECT COSTS** All Years and All Funding Sources | **Project Costs** All Prior Years | **Project Costs** FY 2002-03 | **Project Costs** FY 2004-05 | **Project Costs** FY 2006-07 | **Project Costs** All Years | **Project Start** (Month/Year) | **Project Finish** (Month/Year) |
|---|---|---|---|---|---|---|---|
| **1. Property Acquisition** | | | | | | | |
| Land, Land Easements, Options | $5,000 | $0 | $0 | $0 | $5,000 | | |
| Land and Buildings | 0 | 0 | 0 | 0 | 0 | | |
| **2. Predesign Fees** | 300 | 0 | 0 | 0 | 300 | | |
| **3. Design Fees** | | | | | | | |
| Schematic | 0 | 620 | 0 | 0 | 620 | 06/2002 | 08/2002 |
| Design Development | 0 | 700 | 0 | 0 | 700 | 08/2002 | 12/2002 |
| Contract Documents | 0 | 690 | 0 | 0 | 690 | 12/2002 | 03/2003 |
| Construction Administration | 0 | 0 | 299 | 0 | 299 | 06/2004 | 12/2005 |
| **4. Project Management** | | | | | | 06/2004 | 12/2005 |
| State Staff Project Management | 0 | 0 | 0 | 0 | 0 | | |
| Non-State Project Management | 0 | 0 | 890 | 0 | 890 | | |
| Commissioning | 0 | 0 | 200 | 0 | 200 | | |
| Other Costs | 0 | 0 | 50 | 0 | 50 | | |
| **5. Construction Costs** | | | | | | 06/2004 | 12/2005 |
| Site & Building Preparation | 0 | 0 | 350 | 0 | 350 | | |
| Demolition/Decommissioning | 0 | 0 | 750 | 0 | 750 | | |
| Construction | 0 | 0 | 18,794 | 0 | 18,794 | | |
| Infrastructure/Roads/Utilities | 0 | 0 | 2,749 | 0 | 2,749 | | |
| Hazardous Material Abatement | 0 | 0 | 1,040 | 0 | 1,040 | | |
| Construction Contingency | 0 | 0 | 1,400 | 0 | 1,400 | | |
| Other Costs | 0 | 0 | 100 | 0 | 100 | | |
| **6. One Percent for Art** | 0 | 0 | 138 | 0 | 138 | | |
| **7. Relocation Expenses** | 0 | 0 | 255 | 0 | 255 | 12/2005 | 01/2006 |
| **8. Occupancy** | | | | | | 12/2005 | 01/2006 |
| Furniture, Fixtures and Equipment | 0 | 0 | 1,750 | 0 | 1,750 | | |
| Telecommunications (voice & data) | 0 | 0 | 1,800 | 0 | 1,800 | | |
| Security Equipment | 0 | 0 | 650 | 0 | 650 | | |
| Other Costs | 0 | 0 | 175 | 0 | 175 | | |
| **SUBTOTAL: (items 1 – 8)** | 5,300 | 2,010 | 31,390 | 0 | 38,700 | | |
| **9. Inflation** | | | | | | | |
| Midpoint of Construction | | 11/2002 | 03/2005 | | | | |
| Inflation Multiplier | | 4.50% | 11.50% | 0.00% | | | |
| Inflation Cost | | 90 | 3,610 | 0 | 3,700 | | |
| **GRAND TOTAL** | $5,300 | $2,100 | $35,000 | $0 | $42,400 | | |

Dollars in Thousands ($137,500 = $138)

| CAPITAL FUNDING SOURCES | Prior Years | FY 2002-03 | FY 2004-05 | FY 2006-07 | TOTAL |
|---|---|---|---|---|---|
| State Funds : | | | | | |
| G.O Bonds/State Bldgs | 5,300 | 2,100 | 30,000 | 0 | 37,400 |
| **State Funds Subtotal** | 5,300 | 2,100 | 30,000 | 0 | 37,400 |
| Agency Operating Budget Funds | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 0 | 0 | 5,000 | 0 | 5,000 |
| Local Government Funds | 0 | 0 | 0 | 0 | 0 |
| Private Funds | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| **TOTAL** | **5,300** | **2,100** | **35,000** | **0** | **42,400** |

| CHANGES IN STATE OPERATING COSTS | Changes in State Operating Costs (Without Inflation) | | | |
|---|---|---|---|---|
| | FY 2002-03 | FY 2004-05 | FY 2006-07 | FY 2008-09 |
| Compensation -- Program and Building Operation | 0 | 0 | 2,250 | 3,000 |
| Other Program Related Expenses | 0 | 0 | 1,125 | 1,500 |
| Building Operating Expenses | 0 | 0 | 488 | 650 |
| Building Repair and Replacement Expenses | 0 | 0 | 900 | 1,200 |
| State-Owned Lease Expenses | 0 | 0 | 1,508 | 2,010 |
| Nonstate-Owned Lease Expenses | 0 | 0 | 0 | 0 |
| Expenditure Subtotal | 0 | 0 | 6,271 | 8,360 |
| Revenue Offsets | 0 | 0 | 0 | 0 |
| **TOTAL CHANGES** | 0 | 0 | 6,271 | 8,360 |
| Change in F.T.E. Personnel | 0.0 | 0.0 | 15.0 | 15.0 |

| **PREVIOUS STATE CAPITAL APPROPRIATIONS FOR THIS PROJECT (Legal Citations)**<br>Laws of Minnesota (year), Chapter, Section, Subdivision | Amount |
|---|---|
| Laws of Minnesota 1998, Chapter 2, Section 10, Subd 15(a) | 300 |
| Laws of Minnesota 1996, Chapter 1040, Article 1, Sec. 5, Subd 3 | 5,000 |
| TOTAL | **5,300** |

| **SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS**<br>(for bond-financed projects only) | Amount | Percent of Total |
|---|---|---|
| General Fund | 2,100 | 100.0% |
| User Financing | 0 | 0.0% |

| **STATUTORY AND OTHER REQUIREMENTS**<br>Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill. | |
|---|---|
| Yes | MS 16B.335 (1a): Construction/Major Remodeling Review (Legislature) |
| No | MS 16B.335 (1b): Project Exempt From This Review (Legislature) |
| No | MS 16B.335 (2): Other Projects (Legislative Notification) |
| Yes | MS 16B.335 (3): Predesign Requirement (Administration Dept) |
| Yes | MS 16B.335 (4): Energy Conservation Requirements (Agency) |
| Yes | MS 16B.335 (5): Information Technology Review (Office of Technology) |
| Yes | MS 16A.695: Public Ownership Required (as per Finance Dept) |
| No | MS 16A.695: Use Agreement Required (as per Finance Dept) |
| No | MS 16A.695: Program Funding Review Required (Agency) |
| Yes | Matching Funds Required (as per agency request) |
| Yes | Project Cancellation in 2007 (as per Finance Dept) |

| STATEWIDE STRATEGIC SCORE | | |
|---|---|---|
| **Criteria** | **Values** | **Points** |
| Critical Life Safety Emergency - Existing Hazards | 0/700 | 0 |
| Critical Legal Liability - Existing Liability | 0/700 | 0 |
| Prior Binding Commitment | 0/700 | 0 |
| Strategic Linkage - Agency Six Year Plan | 0/40/80/120 | 120 |
| Safety/Code Concerns | 0/35/70/105 | 35 |
| Customer Service/Statewide Significance | 0/35/70/105 | 105 |
| Agency Priority | 0/25/50/75/100 | 100 |
| User and Non-State Financing | 0-100 | 0 |
| State Asset Management | 0/20/40/60 | 20 |
| State Operating Savings or Operating Efficiencies | 0/20/40/60 | 20 |
| Contained in State Six-Year Planning Estimates | 0/25/50 | 50 |
| **Total** | 700 Maximum | 450 |

**Department of Administration Analysis:**

Agencies should not enter data here. This section will be completed by the Department of Administration at a later date.

**Capitol Area Architectural and Planning Board Review:**

Agencies should not enter data here. This section will be completed at a later date by the Capitol Area Architectural and Planning Board for projects that are or will be located in the Capitol complex area.

**Department of Finance Analysis:**

Agencies should not enter data here. This section will be completed by the Department of Finance at a later date.

**Governor's Recommendation:**

Agencies should not enter data here. This section will be completed at a later date by the Department of Finance on behalf of the Governor.

Administration, Department of
New Finance Department Building

**AGENCY CAPITAL BUDGET REQUEST**
**Fiscal Years 2002-2007**
**Dollars in Thousands ($137,500 = $138)**

**Project Construction**

| CONSTRUCTION TYPE OF SPACE | EXISTING | NEW CONSTRUCTION | | | REMODELED | | | RENEWAL (Asset Preservation) | | | TOTAL COST (in $000) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| List Major Type of Space (Office, Lab, Ramp, etc.) | Gross Sq. Feet | Gross Sq. Feet | Cost (in $000) | Cost Per Sq. Foot (in $) | Gross Sq. Feet | Cost (in $000) | Cost Per Sq. Foot (in $) | Gross Sq. Feet | Cost (in $000) | Cost Per Sq. Foot (in $) | |
| Auditorium | 0 | 4,000 | 1,000 | 250.00 | 0 | 0 | | 0 | 0 | | 1,000 |
| General Office Space | 80,000 | 100,000 | 12,900 | 129.00 | 0 | 0 | | 0 | 0 | | 12,900 |
| Parking Ramp | 0 | 22,000 | 4,894 | 222.45 | 0 | 0 | | 0 | 0 | | 4,894 |
| TOTAL | 80,000 | 126,000 | 18,794 | | 0 | 0 | | 0 | 0 | | 18,794 |

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# APPENDIX I
# GLOSSARY OF TERMS

**Adaption costs** - Expenditures required to adapt the physical plant to the evolving programmatic needs of the institution and to changing standards. Definition derived from *"Financial Planning Guidelines for Facility Renewal and Adaption"*, The Society of College and University Planning, 1989.

**Agency strategic plan** – A summary of agency goals and objectives for the next six years.

**Bonding capacity -** six year estimates of the boundaries of total state capital appropriations, based on the size of the general fund appropriation for debt service, the amount of bonds outstanding, the amount of new bonds that must be sold to finance existing authorizations during upcoming biennia, and interest rates.

**Building classification system -** A system prescribed in statutes to classify *"state-owned buildings, with each class representing a different quality of building construction, to be incorporated into the capital budget format and instructions."*

**Capital Iceberg -** An allegorical representation of the state's deferred maintenance needs.

**CAPRA -** Capital asset preservation and replacement account. Pursuant to M.S. 16A.632 and subsequent bonding bills, capital appropriations to the department of Administration for allocation to state agencies for repair and replacement of various state capital assets. CAPRA projects generally have a cost of $350,000 or less.

**Cost estimating standards** - An accepted set of rules or basis for assigning estimates of probable cost to proposed facilities.

**General Obligation (G. O.) Bonds -** Bonds issued by the state for capital projects in accordance with the Minnesota Constitution and statutes. Secured by a pledge of the state's full faith, credit and taxing authority towards payment of the principal and interest on the bonds when due.

**Green Design (Green Building, Sustainable Design, High Performance Buildings)** – Design and construction practices that significantly reduce or eliminate the negative impact of buildings on the environment and occupants that address sustainable site planning; safeguarding water and water efficiency; energy efficiency; conservation of materials and resources; and indoor environmental quality.

**HEAPR -** Higher education asset preservation and renewal account. Pursuant to M.S. 135A.046 as amended, appropriations to the University of Minnesota and MnSCU for funding of capital repair, replacement and renewal projects.

**Inventory of state building and office space** - An inventory prescribed by statute of all *"major state building and office space owned or leased by the state, including a classification system on the condition and suitability of each major building."*

**Life cycle cost specifications -** Requirements and guidelines for estimating the capital and operating cost of a facility over its defined life.

**Needs Analysis and Planning Process -** The basic steps needed to plan projects and test their feasibility before advancing into design and construction. This includes an estimate of space needs, inventory of existing facilities, calculation of net space requirements, consideration of alternatives and selection of the preferred alternative. Often completed as part of the predesign process.

**Non-building program -** A capital program or request not generally associated with construction or acquisition of a capital facility. Examples include but are not limited to construction of roads, bridges, park trails, or land acquisition not related to a specific facility.

**Program (architectural and engineering) -** The nature of the facility to be planned, designed and built, and the corresponding architectural and engineering characteristics that will satisfy these needs and requirements.

**Program (operational) -** The operational function of a facility including services and activities within the facility.

**Program suitability -** The ability of a facility to satisfy its operational program requirements.

**Qualification of requests -** The process of determining whether capital budget requests adhere to statewide and agency strategic plans, include examination of all reasonable alternatives, and utilize generally accepted space utilization and cost planning standards.

**Renewal expenditures -** Expenditures required to keep the physical plant in reliable operating condition for its present use, without programmatic changes. Deferred renewal refers to postponed renewal work resulting in the deterioration of the physical plant.

**Rolling strategic plans -** strategic plans prepared by state agencies which span several biennia, are updated periodically and have a direct impact on both capital and operating budgets.

**Space utilization standards -** An accepted set of rules or basis for relating operational program requirements to proposed facility characteristics.

**Stages (capital project stages) -** a sequential series of predesign, design and construction stages that are typically followed in the development of a building project or building request.

# APPENDIX 2
# BUILDING INFLATION ADJUSTMENTS

## Why Inflate Costs?

Inflation is an essential part of calculating accurate capital budgets. A cost engineer will typically calculate the cost of a building project based on prices available at the time the estimate is prepared. Through the cost planning process, the project is then placed in the assumed future time frame of project implementation. Based on forecasts of future trends in building costs, the estimate is multiplied by an appropriate inflation factor to allow for the time shift.

Building cost inflation does not necessarily follow more general consumer price inflation nor is it always the same for different trades within the building industry. Building inflation forecasts are typically derived from averaging projections from different construction indices for all building trades and are also influenced by location. "Inflation" is considered synonymous with "escalation" in trade publications.

Failure to account for the length of the project schedule and associated cost of time shift in the budgeting or funding process will result in under-funding a project. This under-funding will translate into an actual loss of project quality, either in materials or ability to satisfy the user space needs. Changes in the project schedule can be accommodated easily by applying a different multiplier to the original estimate.

## How Are Costs Inflated?

Agencies should first determine building project costs based on "today's" present value. Present value is an estimate of the project cost for July 1, 2001. Present value is then inflated to the midpoint of construction based on the project schedule.

Midpoint of construction is used because it most accurately represents the costs that contractors will use at the time of bid preparation. While it is true that many material costs are committed early in construction (e.g. fabricated steel), other material and labor costs are not locked in and will continue to increase until final completion. Some non-building items such as furniture, fixtures, and equipment may not be procured until the very end of the project.

For purposes of definition, midpoint of construction is the date midway between the commencement date and the date of substantial completion. The date of commencement is the start of the construction period when construction forces arrive on the project site. Substantial completion is when progress of the work is sufficiently complete so the owner can occupy or utilize the work site for its intended purpose.

To fund the appropriate inflation multiplier, agencies should identify the month and year closest to the midpoint of construction and look up that date in the Building Project Inflation Schedule provided in this section.

## What Projects Are Eligible For Inflation?

- Inflation will apply to all cost components of 2002 and outyear building requests as identified on the project cost form (this includes predesign, design, and construction).

- Non-building programs WILL NOT be inflated.

- Lump-sum appropriations for multiple projects or requests with multiple project schedules (e.g. ADA, CAPRA, HEAPR, combined asset preservation requests) WILL NOT be inflated.

- Lump-sum appropriations for local grant programs with multiple sub-projects, where grantees apply for grants after authorization of the appropriation WILL NOT be inflated. Examples include historic preservation grants, Head Start facility grants, and bridge repair grants.

- Appropriations including construction of single, local projects should be inflated. Past examples have included individual requests from the St. Paul Science Museum, Minneapolis Convention Center, and Duluth Zoo.

- Projects with limitations of existing statutory or legislative project funding caps WILL NOT be inflated.

## BUILDING PROJECT INFLATION SCHEDULE
(as calculated at the midpoint of construction)

| Midpoint of Construction | INFLATION MULTIPLIER(%) |
|---|---|
| Jul-01 | 0.0% |
| Aug-01 | .3 |
| Sep-01 | .7 |
| Oct-01 | 1.0 |
| Nov-01 | 1.3 |
| Dec-01 | 1.7 |
| Jan-02 | 2.0 |
| Feb-02 | 2.4 |
| Mar-02 | 2.7 |
| Apr-02 | 3.0 |
| May-02 | 3.4 |
| Jun-02 | 3.7 |
| Ju1-02 | 4.1 |
| Aug-02 | 4.4 |
| Sep-02 | 4.8 |
| Oct-02 | 5.1 |
| Nov-02 | 5.5 |
| Dec-02 | 5.8 |
| Jan-03 | 6.2 |
| Feb-03 | 6.5 |
| Mar-03 | 6.9 |
| Apr-03 | 7.2 |
| May-03 | 7.6 |
| Jun-03 | 8.0 |
| Jul-03 | 8.3 |
| Aug-03 | 8.7 |
| Sep-03 | 9.0 |
| Oct-03 | 9.4 |
| Nov-03 | 9.8 |
| Dec-03 | 10.1 |
| Jan-04 | 10.5 |
| Feb-04 | 10.9 |
| Mar-04 | 11.2 |
| Apr-04 | 11.6 |
| May-04 | 12.0 |
| Jun-04 | 12.4 |
| Jul-04 | 12.7 |
| Aug-04 | 13.1 |
| Sep-04 | 13.5 |
| Oct-04 | 13.9 |
| Nov-04 | 14.2 |
| Dec-04 | 14.6 |
| Jan-05 | 15.0% |
| Feb-05 | 15.4 |
| Mar-05 | 15.8 |
| Apr-05 | 16.2 |
| May-05 | 16.5 |
| Jun-05 | 16.9 |
| July-05 | 17.3 |
| Aug-05 | 17.7 |
| Sep-05 | 18.1 |
| Oct-05 | 18.5 |
| Nov-05 | 18.9 |
| Dec-05 | 19.3 |
| Jan-06 | 19.7 |
| Feb-06 | 20.1 |
| Mar-06 | 20.5 |
| Apr-06 | 20.9 |
| May-06 | 21.3 |
| Jun-06 | 21.7 |
| Jul-06 | 22.1 |
| Aug-06 | 22.5 |
| Sep-06 | 22.9 |
| Oct-06 | 23.3 |
| Nov-06 | 23.8 |
| Dec-06 | 24.1 |
| Jan-07 | 24.6 |
| Feb-07 | 25.0 |
| Mar-07 | 25.4 |
| Apr-07 | 25.8 |
| May-07 | 26.2 |
| Jun-07 | 26.7 |
| Jul-07 | 27.1 |
| Aug-07 | 27.5 |
| Sep-07 | 27.9 |
| Oct-07 | 28.3 |
| Nov-07 | 28.8 |
| Dec-07 | 29.2 |
| Jan-08 | 29.6 |
| Feb-08 | 30.1 |
| Mar-08 | 30.5 |
| Apr-08 | 30.9 |
| May-08 | 31.4 |

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# APPENDIX 3
# AGENCY RELOCATION POLICIES

The following policy outlines procedures to be used by agencies when seeking relocation to a new location or facility.

The commissioner of Administration is charged by statute, M.S. 16B.24, to lease office space for state agencies in either state-owned or non state-owned facilities. The Real Estate Management division of Admin (REM) is responsible for providing a lease agreement that sets forth terms and conditions of an occupancy.

When contractual arrangements dictate the need for an agency to relocate, or when the agency believes it must relocate for other reasons, there are basically three ways an agency may request a relocation. The distinction between the three methods is whether or not an appropriation is requested from the Legislature and the timing of the request. If no appropriation is requested, the matter is between REM and the agency.

If an appropriation is required to finance the cost of the move, as well as any permanent differential between the rental expense of the old and new locations, the agency should forward a budget request. The budget request can be made via the biennial budget for action in the odd year of the biennium or via the capital budget for action in the even year of the biennium.

A) **Capital Budget.** The capital budget is the normal vehicle for agency relocation requests. Capital budget requests are prepared during the odd numbered year for action by the Legislature during even numbered years. If an agency wishes to pursue funding in the capital budget during the even numbered years, it should contact REM. REM will review such items and, if approved by REM, may include the agency's request as part of a combined multi-agency request in the capital budget.

   The agency relocation fund is used to fund major agency relocations in the capital budget. REM is responsible for developing and drafting the request on behalf of interested agencies. An agency representative should contact REM as soon as possible to discuss alternatives and recommendations for relocating.

B) **Biennial Budget.** A relocation request should be made through the biennial budget if it is not possible to wait for a capital budget request. The affected agency should work with the Department of Finance (DOF) to make this determination as part of presenting the agency's overall biennial budget request. DOF will consult with REM regarding the urgency of the relocation request. In this case, the request may be included as an agency biennial budget initiative.

   Future base adjustments may be calculated for agency relocations financed by the agency relocation fund in the capital budget or by another specific appropriation in the biennial budget based on the amount appropriated for cost differential between the old and new locations. These base adjustments should be negotiated between the affected agencies and their assigned executive budget officer in DOF.

C) **Agency Reallocations Within Existing Base.** The third and final option for an agency is to reallocate existing resources within the agency's operating budget. This eliminates the need to obtain specific legislative authorization in either the biennial budget or capital budget.

The following information is needed from the agency to request relocation funds in either the capital or biennial budget:

- Estimated cost to move and install agency's furniture and equipment (estimates can be obtained from moving companies and the Department of Administration Plant Management Division).

- Estimated cost to de-install, move and re-install agency's voice and data telecommunications wiring and equipment (including networks, routers and setup, but excluding phone sets). Contact the agency representative from the Department of Administration InterTechnologies Group for assistance.

- Estimated cost to move and install special equipment such as mainframe computers, mail sorters, vaults, large copiers, and associated wiring. Special moving companies may have to be contacted to obtain estimates for moving special equipment if there are unusual requirements that cannot be met by a general moving company.

- Estimate of additional space needs from what the agency currently occupies. Contact REM for assistance. The division will calculate the rent differential based on the agency's anticipated space needs. The agency relocation fund will only fund an agency's rent differential through the end of the biennium in which the agency moves. The agency must fund its rent differential from then on.

- A copy of the memo from the Office of Technology approving the agency's information technology and telecommuting plans. Contact the Office of Technology for additional information regarding requirements for information technology and telecommuting plans.

Once the Legislature has appropriated agency relocation funds or the agency has reallocated funds for that purpose, the agency is responsible for ensuring that the use of funds is in compliance with state encumbering and purchasing requirements.

Purchases using relocation funds are subject to the agency's authority for local purchase (ALP). Purchases made using department purchase orders (DPOs) are subject to the Department of Administration Materials Management Division certification. If the agency does not have ALP and certified purchasing employees, then all purchases must be approved by the Materials Management Division.

All purchases must be encumbered prior to incurring the obligation. As a result, extra processing time may need to be added to the agency's relocation planning schedule to ensure the Department of Administration's approval to encumber the funds prior to ordering the goods and services. Items not budgeted for in the initial relocation budget will not be paid for out of agency relocation funds.

1. Admin’s Financial Reporting and Management and Real Estate Management Divisions will meet with agencies to set up the proper security and account numbers which the agency will use to process purchase requests using agency relocation funds.

2. Purchases for goods or services should be entered in MAPS and processed to status 425 (initiate approvals) by the agency. The agency must provide a purchase justification and identify from which budget category the purchase is to be taken in the purchase order notes screen in MAPS. The purchase request, if appropriate, will be approved to status 429 (all approvals complete), which will allow for further processing in MAPS to status 441 (order/change printed) by the agency.

3. After the agency receives the goods or services and is satisfied, the agency should process the invoice through the MAPS 3-way match status of 641 and payment approval status of 624 (awaiting payment approval). REM will process the final approval and payment. Agencies are responsible for keeping records and documents on all purchases.

Agencies that have questions regarding the policies in this appendix or need further assistance should call the Real Estate Management Division at (651) 296-6674.

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# APPENDIX 4
# TELECOMMUTING AND INFORMATION TECHNOLOGY PLANS

The Minnesota Office of Technology (OT) is required to review and approve state agency information technology plans before agency requests for office space are submitted to the Legislature. State agencies requesting capital funding for office space such as a new building (new construction or acquisition of an existing building), renovation/remodeling or relocation are required to prepare and submit the plan and receive OT approval. A copy of the approval memo from OT must be included in the predesign package or the relocation request document.

The objective of the information technology plan and review is to help state agencies address three legislative goals:

1. reduce the need for office space
2. decentralize operations
3. deliver services electronically.

The purpose of the OT information technology plan review process is to assist agencies to improve and expand current use of technology when relocating or building a new office facility. A comprehensive information technology plan includes technologies that could impact legislative goals.

For example, information technology projects could impact office space allocations for computer equipment rooms and information storage and file areas if agencies automate manual processes and reduce storage of paper records. Also, the total amount of office space needed may be reduced if agencies plan to decentralize operations or provide services electronically and then initiate projects to support those activities.

The completed information technology plan should be distributed to building architects and designers as input for predesign or relocation planning. Visit the OT web site for *reference documents* and an *electronic template* for the technology plan document at www.ot.state.mn.us.

## Due Dates: Relocation: June 15, 2001; Building/Remodeling: October 1, 2001

The information technology plan should be prepared simultaneously with the relocation or building request (or predesign document) and sent to the Office of Technology by the above dates.

## Requirements for the Information Technology Plan

There are six requirements for the information technology plan:

1) One-Page Building or Relocation Summary

   Agencies should provide a one-page summary of the capital building or relocation request that identifies the agency and the type of request, and describes the purpose of the request.

2) Description of Executive Leadership

Information technology management requires the active support of top level management who must assume responsibility for managing and developing the information resources under their control. Agencies should identify an executive with the responsibility, authority and accountability to manage the implementation of this information technology plan. Agencies should provide the name and title of the executive leader responsible for implementing this plan.

3) Description of the Telecommunications Network

Business communications should drive the requirements for the telecommunications network. This network is the foundation for voice, data and video communications and it is fundamental to the successful deployment of existing and emerging technologies. As agencies plan for building acquisition, construction, renovation/remodeling or relocation, it is imperative that the telecommunications network be designed for maximum long-range flexibility and adaptability to changing technology

Agencies should prepare a one to two-page comprehensive description of current and future business communications needs.

Agencies should prepare a high level description of the telecommunications network needed to support the business communications needs. As the building project progresses over time, a detailed telecommunications and building wiring plan should be prepared in cooperation with the Telecommunications Analyst in the Department of Administration.

4) Description of Information Resource Technologies

Agencies should prepare a comprehensive description of which information resource technologies would be used to accomplish the three legislative goals:

- Reduce the need for office space
- Decentralize operations
- Deliver services electronically

Business applications processing and electronic storage technologies and decentralization/delivery technologies are available for accomplishing these goals. Examples include:

Electronic commerce information and service delivery mechanisms, including interactive web-based application systems.

New or enhanced business application systems which minimize manual processing

Electronic inputs/outputs which reduce paper and storage requirements

Electronic imaging and optical disk storage systems for storing massive volumes of information

Interactive voice recognition technology which provides information, redirects inquiries, and allows transaction processing from telephones

Connectivity/local area networking which allows individuals to share software, data files, workstations, servers, and peripheral devices such as printers and facsimile services

Groupware, scheduling and calendaring software which allow individuals to collaborate and coordinate activities

Audio and video teleconferencing which allow individuals to communicate and confer over great distances

Agencies should provide a description of how information technologies used in the new facility would meet the three legislative goals.

5) Implementation Plan

Agencies should prepare an information technology implementation plan for installing new or existing technology in the new facility. This plan might also include removing and relocating existing technology as well as planning for long-term technology initiatives when the building project is complete. This plan would ensure that information technology for the building or relocation project is planned and executed properly in conjunction with the facility construction or relocation plan. An implementation plan should be provided showing tasks, resources and dates for information technology activities. This plan may be a simple list of high-level tasks with due dates or a complex event network showing prerequisites, tasks and schedules.

Agencies should provide an implementation plan for the building/relocation project.

6) High-Level Technology Model

Agencies should prepare a high-level technology model. A technology model may identify opportunities to meet legislative goals across business functions, Systems and facilities. A high-level technology model describes hardware processors, network links and operating software.

Hardware processors might be personal computers, minicomputers or mainframes. Network links include routers, modems, lines, etc. Operating software includes processor/network operating systems and database management systems.

Agencies should prepare a high-level technology model for the capital building or relocation project which describes the hardware processors, network links and operating software.

The information technology plan can be submitted electronically via e-mail, by fax or in hardcopy form.

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## Requirements of the Telecommuting Plan

The Minnesota Office of Technology (OT) is required to review state agency telecommuting plans or statements of non-practicality before agency requests for capital funding for office space are submitted to the Legislature. State agencies requesting capital funding for office space such as a new building (new construction or acquisition of an existing building), renovation/remodeling, or relocation are required to prepare and submit either the plan or statement for review. A copy of the review memo from **OT** must be included in the predesign package or the relocation request document.

The purpose of the OT telecommuting plan review process is to encourage, support and assist state agencies in implementing telecommuting programs. The goals of state agency telecommuting programs could include obtaining business benefits, and using office space more efficiently. Ultimately, telecommuting could reduce the amount of office space required for state agencies.

Visit the OT web site for telecommuting *reference documents* with *examples* and an *electronic template* for the telecommuting plan document at www.ot.state.mn.us.

## Due Dates: Relocation: June 15, 2001; Building/Remodeling: October 1, 2001

The telecommuting plan should be prepared simultaneously with the relocation or building request (or predesign document) and sent to the Office of Technology by the above dates.

There are eight requirements for the telecommuting plan:

1) One-Page Building or Relocation Summary

Agencies should provide a one-page summary of the building or relocation request that identifies h e agency and the type of request, and describes the purpose of the request.

2) Executive Sponsor

Agencies should identify an executive sponsor who has the authority and responsibility to initiate, fund and support a telecommuting program and to approve the agency-wide telecommuting policy and telecommuter understanding. Agencies should provide the name and title of the executive sponsor for the program.

3) Steering Committee

Agencies should establish a telecommuting steering committee that advises the executive sponsor and managers on telecommuting issues, defines the program and provides on-going direction for the program

Agencies should provide the name of the committee and the chairperson, and the name, title and division name for each of the members.

4) Agency-Wide Telecommuting Policy

Agencies should establish an agency-wide telecommuting policy that documents the agency position on telecommuting issues. The agency policy should incorporate the statewide telecommuting policy. Note that many telecommuting policy and program decisions depend on the number of telecommuting days per week or per month that an individual is telecommuting. For example, an ergonomic chair might be provided for an individual who telecommutes 2 or 3 days per week, but not if telecommuting 2 or 3 days per month.

Agencies should provide a copy of the agency-wide telecommuting policy.

5) Agency-Wide Telecommuter Understanding

Agencies should establish an agency-wide telecommuter document of understanding form that describes the specific understandings between the individual telecommuter, the supervisor and the unit manager.

Agencies should provide a copy of the agency-wide telecommuter document of understanding form.

6) Description of the Telecommuting Program

Agencies should prepare a description of a proposed pilot program or the permanent program if a pilot has been completed. As a reminder, agencies are required to "...develop a plan for increasing telecommuting by employees who would normally work in the building..."

The description of the telecommuting program should describe how the agency would meet the statutory requirement. In addition, the description should include the items listed below.

| PILOT PROGRAM | PERMANENT PROGRAM |
|---|---|
| ▪ Business goals<br>▪ Types of jobs/work<br>▪ Length of pilot and dates<br>▪ Number of divisions and telecommuters<br>▪ Training including policies, home safety and technology | ▪ Results of pilot program<br>▪ Business goals for permanent program<br>▪ Responsible organization and coordinator name<br>▪ Number of divisions and telecommuters<br>▪ Types of jobs/work<br>▪ Training including policies, home safety and technology |

Agencies should provide a description of the telecommuting program.

7) Description of Supporting Technology

Agencies should prepare a description of the supporting technology required at the central office site and at homes to support telecommuting. The description should include voice, data and video. Technology decisions also depend on the number of telecommuting days per week or per month that an individual is telecommuting.

For example, a home computer or a second telephone line might be provided for an individual who telecommutes 2 or 3 days per week, but not if telecommuting 2 or 3 days per month. This description should include the types of end user computing equipment both in the central office and the home, remote access capability including security policies, and the training and support plan. An implementation plan should be provided showing tasks, resources and dates for telecommuting technology. This plan may be a simple list of high-level tasks with due dates or a complex event network showing prerequisites, tasks, and schedules.

Agencies should provide a description of the supporting technology and an implementation plan for supporting technology

8) Statement of Impact on Utilization of Office Space and Building Requirements

Agencies should prepare a statement indicating how the telecommuting program would impact utilization of office space and building requirements. The statement should include the specific actions taken within the telecommuting pilot or permanent program and the estimated effects of those actions on utilization of office space and building requirements. This statement may apply to an existing pilot program or to a planned future program.

Agencies should provide a statement that describes the actions taken within the telecommuting program and the impacts of those actions on utilization of office space and building requirements.

**Requirements for a Statement of Non-Practicality**

A telecommuting program may not be practical or feasible for organizations or individual state office building projects in some cases. The non -practicality or lack of feasibility of a telecommuting program depends on several factors, for example, the agency mission and the types of jobs that are performed in the new facility. If this situation occurs, agencies should prepare a statement of non-practicality as a substitute for the telecommuting plan.

Agencies should provide the statement of non-practicality describing the reasons why telecommuting is not practical for employees who would normally work in the new facility.

**Due Dates: Relocation: June 15, 2001; Building/Remodeling: October 1, 2001**

The telecommuting plan should be prepared simultaneously with the relocation or building request (or predesign document) and sent to the Office of Technology by the above date.

The telecommuting plan or statement of non-practicality can be submitted electronically via e-mail, by fax or in hardcopy form.

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# APPENDIX 5
# USE OF GENERAL OBLIGATION BOND PROCEEDS

All requests for state general obligation bonding appropriations must comply with constitutional provisions regarding definitions of eligible capital projects and the proper use of state bond proceeds.

The Constitution of the State of Minnesota sets parameters regarding what types of debt the state may incur and for which purposes debt may be used. This applies specifically to the use of proceeds from the sale of state general obligation bonds.

This appendix presents legal opinions of the state's bond counsel regarding project expenses eligible for state general obligation bond financing.

Applicants should be aware that state bond proceeds can only be used for capital projects which meet a public purpose and for public facilities owned by public entities. Private parties and non-public organizations are not eligible to receive state general obligation bond proceeds.

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April 24, 1989

Mr. Peter Sausen
Assistant Commissioner for Cash & Debt Management
Department of Finance
400 Centennial Building
658 Cedar Street
St. Paul, Minnesota - 55155

Re: Capital Improvement Bill

Dear Mr. Sausen:

At your request, I have reviewed a copy of H.F. 46 as passed by the Minnesota House which authorizes the issuance of state general obligation bonds to finance various projects. We will be unable to issue an unqualified legal opinion with respect to some of these bonds because the authorizations, either in substance or in form, do not conform to the requirements for the issuance of public debt set forth in Article XI of the Minnesota Constitution. The four constitutional requirements which seem to present the greatest problems are discussed briefly below:

1. **The project for which bonds are to be issued must be publicly owned.** Article XI, Section 5, of the Constitution provides, in part, that bonds may only be issued "to acquire and to better public land 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 if the law authorizing the debt is adopted by the vote of at least three-fifths of the members of each house of the legislature". (Emphasis added.) "Public" is not defined but may well refer to ownership of the project financed, rather than its use for a public

purpose. Without a Minnesota Supreme Court ruling on the meaning of the word "public", state bonds cannot be issued to fund a project to be owned by a person or entity other than the State, either directly or through its agencies and instrumentalities or a political subdivision of the State.

2. **The project funded must be a capital expenditure.** Article XI, Section 5, also provides that state bonds may only be issued "to acquire and better public land and buildings and other public improvements of a capital nature". (Emphasis added.) Costs financed must clearly be of a capital nature; operating expenditures cannot be financed with state bonds. We are working on the development of a clear standard to determine what expenditures are "of a capital nature".

3. **The expenditure must be for a public purpose.** This requirement is implicit in several provisions of the Minnesota Constitution, including Article X, Section 1; Article XI, Section 2; and Article XII, Section 1. Public purpose, which is different than public ownership, may be determined partly by ownership, but also the purpose for which, and the persons or entity by which, a project will be used. The concept of what constitutes a public purpose has been expanded in recent years, and great deference is given to a legislative determination of public purpose. However, a line item in a capital improvement bond law may contain no legislative determination of the public purpose to be served, and an explanation of the public purpose to be served or a cross reference to the specific statutory provisions authorizing a program which contains such a reference is often needed.

4. **The purpose for which bonds are to be issued must be clearly set forth in the law.** Article XI, Section 7, of the Constitution provides that "each law authorizing the issuance of bonds shall distinctly specify the purposes thereof and the maximum amount of the proceeds authorized to be expended for each purpose. (Emphasis added.) Thus, in the law authorizing the bonds, either the specific project to be financed must be identified or there must be a specific reference to a statute establishing a specific governmental program which authorizes public projects of a capital nature to be financed.

As you are aware, there are other requirements related to the issuance of public debt set forth in the Minnesota Constitution. However, it is the four requirements that are outlined above which have resulted in the most misunderstanding. I hope this brief outline will be helpful to those drafting legislation authorizing the issuance of state bonds. If we can be of further assistance, please let me know.

Very truly yours,

Tom Hay

Thomas S. Hay

TSH:DAV
CCS: Ms. Christie B. Eller
515 Transp. Bldg.
John Ireland Blvd.
St. Paul - 55155

Mr. John R. Tunheim
102 Capitol Bldg.
St. Paul - 55155

**EXPENDITURES ELIGIBLE FOR STATE GENERAL OBLIGATION BOND FINANCING**

## 1. Purpose of Memorandum.

The purpose of this Memorandum is to provide guidance to State legislators, legislative staff and others as to what type of expenditures are eligible for State general obligation bond financing. However, it does not discuss all legal requirements for the issuance of bonds, but only those which most often present problems for legislators and legislative staff in preparing state bonding legislation. The guidelines were developed by a task force made up of staff from the Department of Finance, offices of the Legislative Auditor and Attorney General and Bond Counsel for the State, the Dorsey & Whitney law firm.

## 2. Minnesota Constitution, Article XI.

The Minnesota Constitution, Article XI, governs the issuance of general obligation bonds by the State. Article XI, Section 5, provides in part that State bonds may be issued:

> "to acquire and to better public land 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 if the law authorizing the debt is adopted by the vote of at least three-fifths of the members of each house of the legislature".

Article XI, Section 7, provides in part that:

> "each law authorizing the issuance of bonds shall distinctly specify the purposes thereof and the maximum amount of the proceeds authorized to be expended for each purpose."

These provisions (and others) establish, either explicitly or by implication, the following constitutional requirements which must be met by legislation authorizing State bonds:

(a) The expenditure funded must be for a public purpose.

(b) The project for which the bonds are issued must be publicly owned.

(c) The expenditure funded must be of a capital nature.

(d) The purpose for which the bonds are issued must be clearly set forth in the law.

### 3. Public Purpose.

All expenditures of State moneys, including bond proceeds, must be for a public purpose. Public purpose is present when the expenditure can reasonably be expected to achieve a legitimate public goal or benefit, even though some benefit may result to non-public interests. A determination of public purpose depends upon the nature of the expenditure and extent to which the public goal or benefit is accomplished, and the extent to which it is the dominant or overriding benefit to be derived from the expenditure. Private benefit may result, but it should not be the dominent or overriding benefit resulting from the expenditure. The nature of the expenditure as public is affected by whether, by both historical and contemporary standards, the expenditure is to be made with respect to a subject matter which is proper for government action; or instead is made with respect to a subject reserved (or which has been or should be reserved) for the private sector.

Public purpose is determined in the first instance by the Legislature, but in the final analysis it is determined by the Minnesota Supreme Court which gives a legislative determination of public purpose great weight in making its decision. This is why it is so important for a law authorizing the expenditure of State funds, including bond proceeds, to clearly determine the public purpose character of the expenditure when the expenditure involves loans or grants to private individuals or entities, or will otherwise result in substantial benefit to a private group of persons or entities.

### 4. Public Ownership.

As indicated above, Article XI, Section 5, uses the word "public" to characterize the land, buildings and other improvements which may be financed with State bonds. "Public" is not defined but may well refer to ownership of the project financed, rather than its use for a public purpose. Without a Minnesota Supreme Court ruling on the meaning of the word "public", State bonds cannot be issued to fund a project to be owned by a person or entity other than the State, either directly or through its agencies and instrumentalities or a political subdivision of the State. Projects of the Minnesota Historical Society have been determined to be public and have been financed with State bonds. However, projects of the following entities or for the following purposes are not so clearly publicly owned that State bonds could be issued to finance them under present law: (a) Indian tribes, (b) Minnesota public radio, (c) Minnesota public television, (d) grants to private property owners to build or improve on-site sewage disposal systems, and (e) grants to private corporations to build or improve sewage treatment works which will serve the public. These projects probably involve a public purpose but must be financed with appropriations or local government unit bonds as part of a local government program of some sort.

### 5. Capital Expenditure.

Article XI, Section 5, limits the expenditure of State bond proceeds to expenditures for land, buildings and other public improvements of a "capital nature". Operating costs cannot be financed with State bonds.

The best, although perhaps not the exclusive, method of determining what constitutes an expenditure of a "capital nature" is to determine what constitutes an expenditure which must be or may be "capitalized" under generally accepted accounting principles applicable to governmental entities. The Legislative Auditor has furnished the following relevant definition:

> Capital Expenditures. Expenditures resulting in the acquisition of or addition to the government's fixed assets which are long-lived tangible assets obtained or controlled as a result of past transactions, events or circumstances. Fixed assets include buildings, equipment, improvements other than buildings, and land.

The definition, while not precise, indicates that (a) expenditures must be made with respect to identifiable land, buildings and other improvements, including capital equipment, and (b) the useful life of the property with respect to which the expenditure is made must be substantial and at a minimum more than a single budget period. Fixed assets purchased by internal service or enterprise funds are not included for this definition of capital expenditures.

Based upon the above and various other considerations, the Department of Finance has prepared and distributed to State departments and agencies as part of the Capital Budget instructions a memorandum of advice on the capital expenditure versus operating expenditure classifications, a copy of which is attached hereto as **Exhibit A.** However, the explanation will be further expanded in order to address issues that continue to arise (i.e., personnel costs).

In reviewing recent legislative proposals, it is apparent that they contain some bond authorizations to finance what cannot clearly be classified as an expenditure of a capital nature. Expenditures best classified as operating expenditures that are proposed to be financed by the issuance of State bonds include: (a) expenditures for staff or consultants to prepare general preliminary studies to determine whether some type or group of capital projects may be needed in the future; (b) expenditures for Staff or consultants to prepare general studies to determine whether a type of modification or improvement to State buildings are needed or desirable, and (c) expenditures for minor repairs and replacements to buildings and related equipment, such as lamp replacement, minor roof repairs, etc.

Another problem is that proposed legislation is often so brief or so vague as to be difficult to understand what actual expenditures State bonds are being authorized for. A related problem is discussed below.

**6. Specific Legislative Authorization.**

As indicated above, Article XI, Section 7, requires that a law authorizing State bonds must "distinctly specify" the purposes for which the bonds are issued. Thus, in the law authorizing the bonds, either the specific project to be financed must be identified or there must be a specific reference to a statute establishing a specific governmental program which authorizes public projects of a capital nature to be financed. State bonding laws some times do not meet this requirement because: (a) the description of the purpose for which the bonds are to be issued is so brief or vague as to be unintelligible, and (b) the description authorizes expenditures for projects not identified or even presently identifiable, and does not "distinctly specify" the purpose by reference to a well-established State program which is set forth in the general statutes. Examples of these shortcomings are: (a) "planning" or "statewide", and (b) pollution control expenditures not related to programs established by Minnesota Statutes, Chapter 116.

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**TSH:DAV**

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THOMAS S. HAY
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March 15, 1990

Mr. Peter Sausen
Minnesota Department of Finance
400 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota - 55155

Re: Capital Expenditures --
State General Obligation Bonds

Dear Peter:

As promised at our March 12th meeting with you and members of your staff, the Attorney General's staff, the Minnesota Senate Counsel's office, and the Minnesota House Counsel's office, enclosed herewith is a Memorandum discussing what expenditures qualify as capital expenditures financeable from state general obligation bond proceeds.

The Memorandum expands upon Section 5 of the Memorandum entitled "Expenditures Eligible for State General Obligation Bond Financing", a copy of which is attached to it. It attempts to provide a clearer and more concise statement of the principles to be applied in determining the eligibility of expenditures, and to apply those principles to the types of expenditures (planning, repair or replacement, and equipment) which give rise to the most difficult questions.

Assuming the Memorandum is satisfactory, I suggest that it be distributed among the same group of people as the earlier Memorandum identified above.

Very truly yours,

Tom Hay

Thomas S. Hay

TSH:DAV
Enclosures

**WHAT EXPENDITURES QUALIFY AS CAPITAL EXPENDITURES FINANCEABLE FROM STATE BOND PROCEEDS**

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1. **Purpose of Memorandum.**

The purpose of this Memorandum is to provide guidance to State legislators, legislative staff and others as to what types of expenditures qualify as capital expenditures which can be financed from State general obligation bond proceeds. This Memorandum is supplemental to the earlier memorandum entitled "Expenditures Eligible for State General Obligation Bond Financing", a copy of which is attached, and attempts to clarify and expand upon Section 5 of the earlier memorandum. Accordingly, Section 5 of the earlier memorandum should be read before reading this Memorandum, and the other requirements for issuing State bonds discussed in the earlier memorandum should not be overlooked.

2. **Statement of Principles.**

Neither the Minnesota Constitution, State law, nor generally accepted accounting principles contain any precise definition of the term "capital nature" or "capital expenditure", terms treated here as equivalents. However, the following criteria, to be used in determining whether an expenditure is a "capital expenditure", can be extracted from accounting principles and rules.

In order to be a capital expenditure:

(a) an expenditure for acquisition or improvement of property must be made with respect to a "fixed asset", such as land, buildings, improvements to land other than buildings or equipment;

(b) a fixed asset being acquired must be "long-lived"; an interest in land of ten (10) years duration has been determined to qualify, and it is suggested that only other fixed assets with an actual useful life of at least ten (10) years should qualify;

(c) an expenditure to improve a fixed asset already owned must (i) comprise a substantial improvement or expansion of the fixed asset, (ii) extend the useful life or substantially increase the value of the fixed asset, and (iii) not be predictable or recurring; and

(d) an expenditure must be project specific.

3. **Application of Principles.**

These criteria, when applied to some of the most troublesome areas (planning, repair and replacement, equipment), indicate the following conclusions:

(a) **Planning.** Expenditures for studies or similar work, the purpose of which is to determine or evaluate need for a project or system needs; expenditures for educational, promotional, informational or lobbying expenditures with respect to a type of project or a "particular" project which has not been sited; and expenditures for computer modeling, financial modeling and preparing financial information with respect to a type of project or a "particular" project which has not been sited; are not sufficiently "project specific" and are not eligible capital expenditures.

(b) **Acquisition of Land, Buildings and Related Equipment.** Expenditures for initial acquisition of land, buildings and other "permanent" improvements to real property; equipment which is incorporated into land, buildings and other permanent improvements (such as heating and air conditioning systems, communication systems, food storage and preparation equipment, etc.); and other equipment which is purchased and installed upon initial acquisition and construction or renovation in order to provide a complete facility usable for the legislatively authorized purpose for the first time; are eligible capital expenditures.

(c) **Equipment Acquired Independently.** Expenditures for equipment acquired independently of any acquisition or construction project which has an actual useful life of less than ten (10) years are not eligible capital expenditures.

Some specific examples of expenditures which do or do not qualify as "capital expenditures" are as follows:

(a) **Do Not Qualify:** Expenditures for minor roof repairs, tuckpointing and caulking; occasional window or window glass replacement; repair or replacement of wornout portions of equipment originally incorporated in a building project, such as heating and cooling systems, communication systems, and food storage and preparation equipment, etc.; replacement of items which typically do not last as long as the structure in which they are located, such as light bulbs, carpeting, wallpaper or painting; interior building reorganization; moving expenses; and purchase or repair of minor moveable equipment or other equipment having an actual useful life of less than ten (10) years; are not eligible capital expenditures.

**(b)** **Do Qualify:** Expenditures for major building renovation projects, major roof reconstruction and replacement projects, and major window replacement projects, which add to the value or life of a building and are not of a recurring nature; somewhat less extensive building renovation projects in connection with initial acquisition and preparation of an existing building for initial use by the State; major items of equipment incorporated in a building upon initial construction or renovation; major "free standing" items of equipment having an actual useful life of at least ten (10) years; are eligible capital expenditures.

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July 5, 2000



Mr. Peter Sausen
Minnesota Department of Finance
400 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Re: Permitted Uses of State General Obligation Bonds;
Department of Administration Technology Projects

Dear Mr. Sausen:

The Department of Finance has received an inquiry from the Department of Administration regarding the possible use of state general obligation bonds to fund a series of technology projects (working description, **Attachment 1**). You have asked us to consider the legality thereof.

State general obligation bonds constitute "public debt" within the meaning of Article XI, Section 4 of the Constitution, and therefore are subject to the limitations of Article XI, Section 5 and Section 7. We have previously provided guidance concerning the interpretation of these constitutional provisions in a letter to you dated April 24, 1989, a memorandum entitled "Expenditures Eligible for State General Obligation Bond Financing," and a letter to you dated March 15, 1990 and accompanying memorandum entitled "What Expenditures Qualify as Capital Expenditures Financeable From State Bond Proceeds." The principles discussed therein are relevant to technology acquisition and we have briefly summarized them, as well as additional considerations applicable to general obligation bond financing for technology, in **Attachment 2** hereto, a memorandum entitled "Summary of Constitutional Principles Applicable to State General Obligation Bond Financing for Technology."

In applying the constitutional requirements to the proposed technology programs, we note that bond counsel is held to a high opinion standard. In order to render an approving opinion, we must be able to conclude that it would be unreasonable for a court to hold to the contrary. While the opinion standard is stringent, it serves to assure the investing public that the general obligation bonds of the State of Minnesota are of the highest quality and that there is no reasonable likelihood that such bonds suffer any legal infirmity.

Proposed Technology Projects
Department of Administration

At the outset, we assume that the Department of Administration technology projects meet the "public purpose" test because the projects achieve legitimate public benefits and because title to technology improvements is to remain with the State. We further believe that many of the infrastructure enhancements generally described in these technology proposals may be financed with the proceeds of general obligation bonds if such infrastructure changes constitute capital betterments of public buildings within the meaning of the constitutional language. While individual projects and bonding bill language would need to be analyzed for compliance with constitutional principles, the following guidance, which is keyed to the various elements of the proposal, should be kept in mind:

A. Network Infrastructure

1. State offices are located either in state-owned buildings or in leased facilities; facilities leases tend to be short term (i.e., less than five years, but some are as long as ten years).

**The type of State office is relevant to meeting the "public building" test; State-owned buildings obviously comply, but short-term leases are problematic. In the absence of a clarification of the law, we would be unable to render an approving opinion on bonds used to finance betterments of leaseholds of less than ten years; the ten-year standard (which has been used by the State in the past) helps to ensure, in conjunction with other factors, that the "public" interest is substantial. We have previously concluded that "to acquire" means acquisition by purchase; thus, the ten-year test does not authorize general obligation bonding for build-outs made upon initial leasing of space.**

2. Such offices have need for infrastructure changes to accommodate technology; such changes will vary form site to site, but may include:

a) installation of coaxial cable ("cable") and/or fiber-optic wire ("fiber") for internal transmission; cable or fiber may be run through walls, under floors, above drop ceilings and the permanence of installation will vary; may include installation in ground and connector devices (jacks, hubs, terminals) - cable and fiber installation typically is building-wide and remains beyond ten years, most often for the life of the building;

**Installation of coaxil cable and/or fiber-optic wire may constitute a betterment and not mere maintenance if accomplished as part of a program of substantial technological upgrade to a building. A betterment must renovate, improve or expand, i.e., change the character or function, not merely repair or replace; typically cannot be removed without difficulty or damage to the building; must result in an increase in value and/or useful life; and must not be recurring or predictable. In-ground installation and connector devices may be included in appropriate cases as long as they are located on the public building site.**

b) changes to utility systems, i.e., electrical, cooling, ventilation, etc., necessary to support technology; may include fire suppression, wall and structural alterations and is often permanent;

**Changes to utility systems necessary to support technology comprising betterments as defined in 2(a) may be financed in appropriate circumstances; mere maintenance is neither a betterment nor capital and would not be eligible for debt financing.**

c) creation of technology centers within office space to facilitate technological support; technology centers include computer or server rooms and related wiring closets within buildings; alteration to building with increased electrical service and/or conduit to separate cable or fiber from other utilities;

**Technology centers, including computer or service rooms and related wiring closets may constitute part of a betterment program in appropriate circumstances; increased electrical service and/or conduits to cable or fiber from other utilities may also be financeable, as described in 2(a) and (b) above.**

d) creation of "clean" rooms to prevent contamination of systems when certain functions are performed; some "clean" rooms today, but more often secure server rooms with specialized design, floor plan, utilities, and added security modifications;

**"Clean" rooms and/or secure service rooms, installed as part of a betterment program for a particular building, may be paid for with general obligation bond proceeds.**

e) acquisition of routers, switches, transmitters, repeaters or similar devices as part of technology infrastructure; these items have a relatively short useful life (i.e., less than five years), and are either replaced or upgraded; such devices may be installed on racks or bolted down but are able to be removed physically with little damage to the building (although removal in some cases would result in disruption of technology service and require significant rewiring, etc.) trays, racks, closet structures are long-lived (beyond ten years) and many devices within the server room and wiring closets last beyond five years;

**Routers, switches, transmitters, trays, racks, closet structures and other similar devices may not be financed with general obligation bonds on an individual or repair/replacement basis; however, if these items are part of technology infrastructure (not, for example, items such as personal computers that do not comprise an integral part of the building's technology system), they may be acquired as a component part of a general program that comprises a capital betterment.**

f) technology infrastructure installed in leased office space will remain the property of the State.

**As described above, the retention of legal title by the State is necessary to meet the "public" building test.**

3. Data are transmitted to and from State offices either through cable and fiber or by wireless transmission.

a) cable/fiber systems require running of cable/fiber between office locations as well as supporting equipment; would be installed on land owned, leased or acquired through easements by the State or government units; includes cable and fiber to/from state office buildings and nearest service point of presence at street or pole;

**Cable/fiber systems that are a component part of the betterment of a particular building and its site may be financed with general obligation bonds, as described in 2(a) above. Cable/fiber that is located on public land that is not the site of a bettered building is not part of a building's betterment program. Such cable or fiber can be removed from its location relatively easily, might not even be incorporated into the land, and does not improve the value of the land; thus, mere stringing or burying of cable or fiber on public land does not constitute a betterment of such land and may not be financed with general obligation bonds.**

b) wireless systems require reception-transmission facilities at the office location, which equipment is attached to the building and in some cases may not be removable without damage to building; such systems for public safety utilize microwave networks and the physical characteristics of microwave equipment are generally similar to other wireless systems; wireless systems require the installation of tower facilities constituting substantial structures not easily or cheaply removed from their locations on property owned, leased or acquired through easement by the State or government units. This includes transmission within the wireless system.

**Wireless system infrastructure located at state buildings may be financed if part of a betterment program; transmission facilities located at separate locations would need to be reviewed on a case-by-case basis. It may be possible that such towers will, in particular cases, constitute "improvements" as described in the Constitution.**

B. Major Statewide Applications

1. Development of customized software logic and processes to implement various statewide system applications; costs are people-intensive (i.e., systems analysts, programmers etc.).

2. Systems include but are not limited to: criminal and juvenile justice systems; electronic filing systems; integrated web service delivery systems; optical scanners; geographic positioning systems; electronic voting systems; automated fingerprint ID systems; kiosks; electronic security systems; water/air/feedlot quality monitoring systems; environmental data sharing systems.

Many of these systems have costs measured in tens of millions of dollars and expected lives of twenty or more years. Intellectual property (licenses and code) is purchased and created. The largest share of expense is in the building phase and may be spent over two or more biennia.

C. Data Management

1. Generally similar to production management technology described in B above, but with recognition that data are an "asset" of the State and investments in data management tools will result in enhanced value and prolonged life of the data asset. Examples of enhanced value are transformation of data from production systems into data for complex analysis or historical preservation.

2. Expenses related to management, transformation, manipulation and transfer movement of data from environment to environment; costs are people-intensive, but will include acquisition of certain equipment as described in A(2)(e) above. Expenses will also include development of metadata dictionaries and repositories and data warehouses.

**The development and acquisition of the systems described in B. and C. above, while expensive and undeniably important, do not constitute the acquisition or betterment of land or buildings. The word "improvements" as commonly used in the legal sense means enhancements to real property, not equipment or software. Moreover, certain of the costs associated with the described programs may not be "capital" expenses. Even assuming that financing is sought only for capital items, a court might reasonably conclude that the word "improvements" should be interpreted in historical fashion. Thus, under current law the bond counsel opinion standard would prevent us from approving the use of general obligation bonds for these purposes. To the extent that these systems include either equipment or software embedded in mainframes acquired and installed during a betterment program, such applications could potentially be financed with bond proceeds.**

<u>Bonding Bill Language</u>

We reiterate the constitutional requirement contained in Article XI, Section 7 that any bonding bill "distinctly specify" the purposes for the issuance of bonds and the amount of bonds authorized for each purpose. Because most of the technology proposals are just in the planning stage, it may be particularly difficult to meet the constitutional requirements without the statutory creation of a State program authorizing the related capital projects. If such a program were created, then the bonding bill could cross-reference that statute for purposes of meeting the requirements of Article XI, Section 7.

Lease-Purchase Alternative

While the language of the Constitution does not authorize the issuance of general obligation bonds for all elements of the technology programs (the Constitution authorizes the issuance of long-term debt only for capital building projects because historically such projects were the only long-term assets acquired by the State), the use of lease-purchase financing may be available to State officials considering how to pay for technology programs. This relatively new method of acquiring short-term financing for equipment needs is already used by the Department of Finance to fund equipment acquisitions for which general obligation bond debt is inappropriate. Such contracts do not constitute "public debt" and are outside the limitations of Article XI, Section 5 and Section 7. Often lease-purchase financing may be undertaken on a tax-exempt basis similar to general obligation bonds.

Other States

We have been advised that there are at least five states (Connecticut, Massachusetts, Montana, Tennessee and Vermont) that have issued debt for technology purposes. Three of these states (Connecticut, Tennessee and Vermont) have no constitutional limitations on the issuance of debt. In each of these jurisdictions, then, the legislature is free to authorize the issuance of bonds for any legitimate public purpose. The remaining two states (Massachusetts and Montana) have very limited constitutional restrictions on the issuance of debt, none of which is applicable to technology. Thus, these states do not provide useful precedent.

We hope that this analysis is helpful in determining which technology projects are appropriate for general obligation bond financing. The problem is obviously complex and we look forward to working with you and others in determining how the State should proceed.

Very truly yours,

Leonard S. Rice

LSR/pmh
Enclosures
cc: Christie Eller, Esq.

Attachment 2

SUMMARY OF CONSTITUTIONAL PRINCIPLES APPLICABLE TO
STATE GENERAL OBLIGATION BOND FINANCING FOR TECHNOLOGY
July 5, 2000

State general obligation bonds constitute "public debt" within the meaning of Article XI, Section 4 of the Constitution, and therefore are subject to the limitations of Article XI, Section 5 and Article XI, Section 7. We have previously provided guidance concerning the interpretation of these constitutional provision in a letter to Peter Sausen dated April 24, 1989 (Exhibit A), a memorandum entitled "Expenditures Eligible for State General Obligation Bond Financing" (Exhibit B), and a letter to Peter Sausen dated March 15, 1990 and accompanying memorandum entitled "What Expenditures Qualify as Capital Expenditures Financeable From State Bond Proceeds" (Exhibit C). The principles discussed therein are relevant to technology acquisition and a brief summary of them, as well as additional considerations applicable to general obligation bond financing for technology, follow.

All expenditures of State money, including the proceeds of State general obligation bonds, must be for a public purpose. Additionally, the Constitution provides that:

> Public debt may be contracted and works of internal improvements carried on for the following purposes:
>
> (a) to acquire and to better public land 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 if the law authorizing the debt is adopted by the vote of at least three-fifths of the members of each house of the legislature;

Minnesota Constitution, Article XI, §5. Article XI, Section 7 further states that ". . . each law authorizing the issuance of bonds shall distinctly specify the purposes thereof and the maximum amount of the proceeds authorized to be expended for each purpose." Therefore, all expenditures of bond proceeds must be (1) for a public purpose, (2) to acquire and to better (3) public land and buildings (4) and other public improvements (5) of a capital nature, and (6) distinctly specified by law in purpose and amount.

**Public Purpose**

A public purpose exists where an expenditure can reasonably be expected to achieve a legitimate public goal or benefit, even though some benefit may result to non-public interests. A determination of public purpose depends upon the nature of the expenditure and the extent to which the public goal or benefit is accomplished, and the extent to which it is the dominant benefit to be derived from the expenditure. Private benefit may result, but it should not be the dominant or overriding benefit of the expenditure. The nature of the expenditure as public is affected by whether, by both historical and contemporary standards, the expenditure is to be made with respect to a subject matter which is proper for government action; or instead is made with respect to a subject reserved for the private sector. The legislature is given great deference in its determination of public purpose.

**To Acquire and To Better**

"To acquire" is generally understood to mean acquisition by purchase. "To better" typically means to substantially renovate, to improve or to expand, to change the character or function, not merely to repair or to replace; betterments cannot be removed without substantial difficulty or damage to the original; and property that has been bettered typically will have an increase in value and/or useful life. Betterments are not recurring or predictable.

**Public Land and Buildings**

Article XI, Section 5 uses the word "public" to characterize the land, buildings and other improvements which may be financed with State bonds. "Public" is not defined, but we have previously concluded that the word refers to ownership of a substantial interest in the subject property, as well as its use for a public purpose. State bonds cannot be issued to fund a project to be owned by a person or entity other than the State, either directly or through its agencies and instrumentalities or a political subdivision of the State, or where the State's interest in the affected building or land is insubstantial, i.e., less than ten years in length.

Projects of the Minnesota Historical Society have been determined to be public and have been financed with State bonds. However, projects of the following entities or for the following purposes are not so clearly publicly owned that State general obligation bonds could be issued to finance them under present law: (a) Indian tribes, (b) Minnesota public radio, (c) Minnesota public television, (d) grants to private property owners to build or improve on-site sewage disposal systems, and (e) grants to private corporations to build or improve sewage treatment works which will serve the public. These projects probably involve a public purpose but must be financed with appropriations or local government unit bonds as part of a local government program of some sort.

**Improvements**

The word "improvement" is used in law to describe a permanent addition to real property (and not equipment or other personal property) that increases the value of the real property, involves the expenditure of time and money, and makes the real property more useful or valuable, as distinguished from mere replacement or repairs.

**Expenditures of a Capital Nature**

Projects financed with State bond proceeds are limited to expenditures for land, buildings and other public improvements of a "capital nature." Operating costs cannot be financed with State bonds. The definition of "capital expenditure" under generally accepted accounting principles applicable to governmental entities is as follows:

> Capital Expenditures. Expenditures resulting in the acquisition of or addition to the government's fixed assets which are long-lived tangible assets obtained or controlled as a result of past transaction, events or circumstances. Fixed assets include buildings, equipment, improvements other than buildings, and land.

We have previously summarized the criteria to be used in determining whether an expenditure is a "capital expenditure" as follows:

(a) an expenditure for acquisition or improvement of property must be made with respect to a "fixed asset" such as land, buildings, improvements to land other than buildings or equipment;

(b) a fixed asset being acquired must be "long-lived"; an interest in land of ten years duration has been determined to qualify, and it is suggested that only other fixed assets with an actual useful life of at least ten years should qualify;

(c) an expenditure to improve a fixed asset already owned must (i) comprise a substantial improvement or expansion of the fixed asset, (ii) extend the useful life or substantially increase the value of the fixed asset, and (iii) not be predictable or recurring; and

(d) an expenditure must be project specific.

For example, expenditures for studies to determine the need for a project, for educational, information or lobbying for a project which has not been sited, and expenditures for computer models and financial information with respect to a project not yet sited are not properly categorized as capital expenditures.

Expenditures for equipment acquired independently of an acquisition or betterment project which has a useful life of less than ten years are not eligible capital expenditure. Expenditures for repairs and replacement of existing structures and equipment typically do not qualify as capital expenditures.

# APPENDIX 6
# CAPITAL GRANTS AND USE AGREEMENTS

Bonding bills have traditionally been adopted to provide funding from state general obligation bond proceeds for land acquisition, construction and improvements to facilities of state agencies and higher education institutions. However, in recent years, many non-state projects have received funding.

At the time of preparation of this manual, the extent that the Governor and 2002 Legislature may choose to fund requests from local units of government is unclear. For now, it is recommended that political subdivisions assume that state financing will be limited for local projects, competition for limited funding will be strong, and most project financing (if offered) will likely come from state general obligation bonds.

Based on these assumptions, political subdivisions should consider state financing of their local projects to be the place of last resort, with primary emphasis on local self-reliance. In addition, political subdivisions that are considering a state capital request must tailor their request to be in accordance with state constitutional and statutory requirements as summarized in this appendix.

In increasing numbers over the last several years, private and non-profit (non-public) organizations have been seeking appropriations from general obligation bond proceeds for construction or remodeling of capital facilities. The Minnesota Constitution does not allow for general obligation bond proceeds to be appropriated directly to non-public organizations. The Constitution states that "*Public debt may be contracted and works of internal improvement carried on for the following purposes...", which include, "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...".*

The Department of Finance recognized the need to better communicate the circumstances under which nonpublic organizations could have capital facilities built or improved through the use of general obligation bond proceeds. During the 1994 legislative session, DOF drafted guidelines on the use of bond proceeds by nonpublic organizations with the intent of distributing these guidelines. The 1994 Legislature incorporated these guidelines into Minnesota Statutes 16A.695, thus establishing requirements for the use of state general obligation bond proceeds by non-public organizations. The legislation also established requirements related to the sale of property financed by state general obligation bond proceeds.

The legislation required the Commissioner of Finance to establish an Order relating to use and sale of state bond financed property. That Order was executed on July 14,1994, and amended on July 20, 1995. A copy of the amended Commissioner's Order is included in this Appendix.

Private parties and non-public organizations are not eligible to receive state general obligation bond proceeds. State general obligation bond proceeds may only be used for projects of this type if such proceeds are appropriated to political subdivisions. In this situation, political subdivisions must operate a public program managed by a non-public organization in a facility funded by general obligation bond proceeds and owned by the political subdivision.

State agencies and political subdivisions that receive appropriations of general obligation bond proceeds to be utilized by non-public organizations or expect to sell property that was financed in whole or in part by general obligation bond proceeds should review the Order in its entirety and consult with their legal advisors.

Political subdivisions and non-public organizations should review the Commissioner's Order to understand the requirements that they will have to follow when seeking bond financing for their capital improvements and the requirements related to sale of the bond-financed property in the future.

The main points contained in the Commissioner's Order include the following:

- State general obligation bonds can be issued only to finance publicly-owned land, buildings or improvements to be used to conduct governmental programs of the state and its political subdivisions.

- "State bond financed property" means property acquired or bettered in whole or in part with the proceeds of state general obligation bonds.

- A use contract between a public agency and a non-public party can be entered into only for the express purpose of carrying out a governmental program established by law and authorized by official action of the contracting public officer or agency.

- The use contract must provide for on-going program oversight by a public officer or agency, which includes the right of termination, and must be approved by the commissioner of Finance.

- Certain requirements apply to the sale of state bond-financed property and associated reimbursements to the State of Minnesota.

- Additional legal requirements that can only be understood by reviewing the Order of the Commissioner in its entirety and consulting with agency legal advisors.

Please note that the above information is only a brief and summarized version of the Commissioner's Order. All interested parties are strongly encouraged to read the complete Order to obtain a full understanding of all applicable requirements.

Questions regarding the Commissioner's Order may be forwarded to Peter Sausen, Assistant Commissioner for Management Services at (651) 296-8372. Questions regarding how local governments may submit capital requests may be forwarded to Lee Mehrkens, Capital Budget Coordinator at (651) 296-1700.

ORDER AMENDING
ORDER OF COMMISSIONER OF FINANCE
RELATING TO USE AND SALE OF STATE
BOND FINANCED PROPERTY

IT IS HEREBY ORDERED by the Commissioner of Finance of the State of Minnesota that the Commissioner's Order entitled "Order of Commissioner of Finance Relating to Use and Sale of State Bond Financed Property" dated July 14, 1994, be amended to read as follows:

Section 1. Authorization; Purpose; Necessity.

1.01. Authorization. This Order is adopted pursuant to Minnesota Statutes, Section 16A.95, as amended, for the purpose of establishing requirements to be complied with by public officers and agencies in entering into contracts relating to the use or sale of state bond financed property.

1.02. Purpose. The purpose of the requirements is to ensure that the proceeds of state general obligation bonds authorized by the legislature to be issued to finance the acquisition or betterment of public land and buildings and other improvements of a capital nature by the state and its political subdivisions are used for such purposes, and that the interest to be paid thereon is and will continue to be (whenever possible) exempt from federal income taxation. Essentially, state general obligation bonds can be issued only to finance publicly owned land, buildings or improvements to be used to conduct governmental programs of the state and its instrumentalities and political subdivisions. Where state bonds are to be issued to finance property which is to be leased, managed, operated or otherwise used by a non–public party, or where state bond financed property is to be sold to a non-public party, questions may arise as to the legality and tax-exempt status of the bonds. Accordingly, the requirements set forth herein are to be complied with by a public officer or agency in entering into lease, management or other similar contracts relating to the use of state bond financed property pursuant to state law, and in selling state bond financed property, to ensure the legality and tax-exempt status of the bonds.

1.03. Necessity. The provisions of this Order are determined to be necessary to ensure the legality and tax-exempt status of state general obligation bonds and compliance with the act.

Section 2. Definitions. For purposes of this Order the terms defined in this Section shall have the meanings given to them in this Section.

2.01. Act. "Act" means Minnesota Statutes, Section 16A.95, as amended.

2.02. Code. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and all treasury regulations, revenue procedures and revenue rulings issued pursuant thereto.

2.03. Commissioner. "Commissioner" means the Commissioner of Finance or his or her designated representative.

2.04. Fair Market Value. "Fair market value" means, with respect to the sale of state bond financed property, the price that would be paid by a willing and qualified buyer to a willing and qualified seller as determined by an appraisal of the property, or the price bid by a purchaser under a public bid procedure after reasonable public notice.

2.05. Non-Public Party. "Non-public party" means a person or entity other than a public officer or agency.

2.06. Outstanding State General Obligation Bonds. "Outstanding state general obligation bonds" and "outstanding state bonds " mean the dollar amount certified by the commissioner, upon the request of a public officer or agency, to be the principal amount of state bonds, including any refunding bonds, issued with respect to the state bond financed property, less the principal amount of state bonds paid or defeased as of the date of certification.

2.07. Public Officer or Agency. "Public officer or agency" means a state officer or agency, the University of Minnesota, the Minnesota Historical Society, and any county, home rule charter or statutory city, school district, special purpose district, or other public entity, or any officer or employee thereof. It does not include the United States or any agency or instrumentality of the United States.

2.08. State Bond Financed Property. "State bond financed property" means property acquired or bettered in whole or in part with the proceeds of state general obligation bonds. "Acquired" and "bettered" shall have the meanings given the terms "acquisition" and "betterment", respectively, in Minnesota Statutes, Section 475.51, and shall include planning and design activities related to a specific project.

2.09. State General Obligation Bonds. "State general obligation bonds" and "state bonds" mean state general obligation bonds authorized to be issued under Article XI, Section 5, clause (a) of the Minnesota Constitution, or any bonds issued to refund those bonds.

2.10. Use Contract. "Use contract" means a lease, management contract or other similar contract relating to state bond financed property, between a public officer or agency which owns or has jurisdiction over the property and another public officer or agency or a non-public party.

Section 3. Application. This Order shall apply only as provided in this Section, and the provisions of Sections 4 through 6 are subject to the provisions of this Section.

3.01. In General. This Order applies to transactions involving state bond financed property, regardless of when acquired or improved, unless otherwise provided by law, or unless such application would impair the obligations of a public officer or agency to a non-public party under a contract entered into pursuant to law, which contract was in effect on May 17, 1994. The commissioner will, from time to time, issue, revise and publish a list of transactions exempted from the provisions of the act and this Order pursuant to law.

3.02. Certain Use Contracts. If the public officer or agency having jurisdiction over or which owns state bond financed property determines that it is permanently or currently not needed for governmental purposes, and the determination is approved by the commissioner, the requirements set forth herein relating to governmental programs shall not be applicable to use contracts relating thereto.

3.03. Transactions Between Public Officers and Agencies. This Order applies to transactions between and involving only public officers or agencies which are entered into pursuant to state law, except as specifically provided in Sections 4 and 5.

Section 4. Requirements for Use Contracts.

4.01. Statutory Authorization. (a) Use contracts relating to state bond financed property can be entered into only where authorized by state law other than the act; the act itself does not authorize, but only regulates, such contracts.

(b) A use contract must comply with the substantive and procedural provisions of the state law authorizing it, the act, and the requirements of this Order.

4.02. Requirements for Non-Public Party Use Contracts. Use contracts between a public officer or agency and a non-public party are governed by the provisions of Section 4.01 and this Section.

(a) The use contract must be entered into for the express purpose of carrying out a governmental program established by law or authorized by law and established by official action of the contracting public officer or agency. The governmental program and its purpose must be set forth in the use contract.

(b) The term of a use contract relating solely to land shall be governed by the state law authorizing it. The term of a use contract relating to buildings and improvements, including all renewal terms that are solely at the option of the non–public party, shall be substantially less than the useful life of the buildings or improvements. Ordinarily a use contract term not exceeding 50% of the useful life of the property to which it relates will be considered to be for a period substantially less than the useful life of such property. A use contract may allow renewal beyond the end of the original (or any previous renewal) term, upon determination by the public officer or agency by official action that such renewal is necessary or desirable to continue to carry out a governmental program.

(c) The use contract must provide for program oversite by a public officer or agency. A use contract which requires the non-public party to provide to the contracting public officer or agency an initial program implementation plan and, at least annually, a program evaluation report and a program budget showing program revenues and expenses, will be considered to provide for program oversite by a public officer or agency.

(d) The use contract must allow for termination by a public officer or agency in the event of default by the non-public party, or in the event the governmental program is terminated or changed, and may provide for notice of default for a specified period which is reasonable under the circumstances prior to termination.

(e) The use contract must require the non-public party to pay all costs of operation and maintenance of the state bond financed property allocable to it, unless the public officer or agency is authorized and agrees to pay such costs pursuant to state law. A use contract need not require the non-public party to pay to the public officer or agency any compensation for use of the state bond financed property unless required by a state law other than the act or required by the commissioner.

(f) If during any year of the term of a use contract relating to state bond financed property, state general obligation bonds issued to acquire or better such property are outstanding, a percentage of all moneys received by a public officer or agency pursuant to the use contract in excess of the amount needed and authorized to be used to pay operating costs of the state bond financed property, or to pay the principal, interest, redemption premiums, and other expenses when due on debt related to the property other than state bonds, must be paid to the commissioner by the public officer or agency and used by the commissioner to pay and redeem or defease state bonds issued to finance the property. Such percentage shall be determined by the commissioner and, absent circumstances which would indicate a different method, will be determined by dividing the total principal amount of all state bonds issued with respect to the state bond financed property by the total principal amount of all public debt financing incurred with respect to such property by any public officer or agency (other than debt issued by a public officer or agency for which it has no financial liability), without regard to the amount of bonds outstanding at any time.

4.03. Requirements for Public Officer or Agency Use Contracts. Use contracts between two public officers or agencies are governed by the provisions of Section 4.01 and this Section. The provisions of Section 4.02, paragraphs (a), (c), (d) and (f) shall apply to such use contracts.

4.04. Approval by Commissioner. (a) No public officer or agency shall enter into a use contract with respect to state bond financed property, or the renewal or amendment of an existing use contract, without the prior written approval of the commissioner.

(b) Proposed use contracts, renewals and amendments and, with respect to use contracts involving a non-public party the related information described below, should be submitted to the commissioner not less than 60 days before their proposed date of execution, except that in the case of a use contract described in Section 4.05, paragraph (a), the use contract should be submitted not less than 90 days before such date, and the submission should indicate that Section 4.05 is applicable. Such related information should include, if not evident from the use contract, state law authorization; the name, address, nature, financial condition, and reason for selection of the non-public party; the initial or current program implementation plan and budget (except in cases of leases of excess property); and other information deemed relevant by the public officer or agency. The department of finance will endeavor to provide approvals or comments requiring change in use contract terms within a reasonable period after receipt of the proposed use contract and the related information, but failure to approve or provide comments on a proposed use contract shall not constitute approval.

4.05. Tax Considerations. (a) Except as provided in paragraph (b), if under the terms of a proposed use contract the commissioner reasonably expects to receive money pursuant to Section 4.02, paragraph (f), the public officer or agency shall, upon direction by the commissioner, take, and/or require the contracting non-public party to take, such actions and furnish such documents to the commissioner as the commissioner determines to be necessary to ensure that the interest to be paid on the state bonds issued to finance the property to which the use contract relates is exempt from federal income taxation. Such actions may include either (i) compliance with procedures intended to classify the state bonds as a "qualified bond" within the meaning of Section 141(e) of the Code, or (ii) changing the nature and/or terms of the use contract so that it complies with Revenue Procedure 93-19; or (iii) compliance with Code provisions, regulations, or revenue procedures which amend or supersede the foregoing.

(b) The commissioner may determine that under the Code the state bonds will not be subject to federal income taxation without regard to compliance with paragraph (a), or that compliance with the requirements of paragraph (a) is not practical or economically feasible, in which event compliance with paragraph (a) may not be required. In most cases, and barring special circumstances, compliance will not be required where the total amount of state bonds authorized by law to be issued with respect to a governmental project or program is less than $1,000,000.

Section 5. Guidelines and Procedures for Sale of Bond Financed Property.

5.01. Authorization of Sales. (a) State bond financed property can be sold or transferred to a non-public party or a public officer or agency only where authorized by state law; the act itself does not authorize, but only regulates, such transactions.

(b) A sale or transfer must comply with substantive and procedural provisions of the state law authorizing it, the act, and the requirements of this Order.

5.02. Requirements for Sales. (a) Except as provided in paragraph (c), no public officer or agency shall sell state bond financed property unless the public officer or agency determines by official action that the property is no longer useable or needed to carry out the governmental program for which it was acquired or constructed, the sale is made for fair market value, and the sale is approved by the commissioner.

(b)(i) If any state bond financed property which is sold was acquired or improved solely with state bond proceeds, all of the net proceeds of such sale shall be paid to the commissioner, and so much of the net proceeds of sale as is necessary to pay and redeem or defease the outstanding State bonds deposited in the state bond fund, and used for this purpose, and any balance of the net proceeds deposited in the general fund or other state fund designated by law; and (ii) if the state bond financed property which is sold was acquired or improved partly with state bond proceeds and partly with other money, the net proceeds of sale shall be used: (x) first, to pay to the commissioner an amount equal to the state bond proceeds used to acquire or better the property; (y) second, to pay in full any outstanding public or private debt incurred to acquire or better the property; and (z) third, any net sale proceeds not needed for these purposes shall be divided between or among and paid to the interested public and private parties which provided money for such acquisition or betterment (other than any private lender already paid in full), in proportion to the amounts of money provided by them for such purpose, which division shall be agreed to in writing between or among all of them. Amounts received by the commissioner shall be used in the same manner as provided in clause (i) of this paragraph.

For purposes of this paragraph (b), the acquisition of state bond financed property by a lender in satisfaction of a debt, either by foreclosure sale or acceptance of a deed in lieu of foreclosure or by enforcement of a security interest, is not a sale; but a subsequent sale by the lender is subject to the act and this section and must be made as authorized by law and for fair market value. While held by the lender the state bond financed property shall not operate the property in a manner inconsistent with the governmental program established with respect to the property. The lender shall exercise its best efforts to sell the state bond financed property to a third party as soon as feasible following acquisition of marketable title to the property.

When all of the net proceeds of sale of any state bond financed property have been applied as provided in this paragraph, the act and this Order no longer apply to the property.

(c) State bond financed property may be transferred between public officers or agencies for a nominal consideration where authorized by state law, if the transferor public officer or agency determines by official action that the state bond financed property to be transferred is no longer useable or needed to carry out the governmental program for which it was acquired or constructed, and the transferee public officer or agency determines by official action that the property is needed or useful for a governmental program of the transferee, the official action is filed with the commissioner, and the transferee public officer or agency acknowledges that any sale of the property by the transferee is subject to the provisions of this Order.

(d) Paragraphs (a) through (c) do not apply to transfers of control of state-owned property between state departments or agencies which are regulated by Minnesota Statutes, Section 15.16. So much of the moneys transferred to a state department or agency as a result of the transfer of control of state bond financed property as is necessary to pay and redeem or defease outstanding state bonds issued to finance the acquisition or improvement of the property, shall be transferred to the state bond fund and used for this purpose.

5.03. Approval by Commissioner. (a) No public officer or agency shall enter into a contract for the sale of state bond financed property or any amendment thereto affecting the sale price without the approval of the commissioner.

(b) Proposed sale contracts and amendments, and the related information described below, should be submitted to the commissioner not less than 60 days before their planned date of execution. Such related information should include, if not evident from the sale contract, state law authorization; the name, address and nature of the purchaser, if known; the proposed method of sale; the sales price and how it was determined; any appraisal upon which the sale price is based; and other information deemed relevant by the public officer or agency. The department of finance will endeavor to provide approvals or comments requiring change within a reasonable period after receipt of the proposed sale contract and the related information, but failure to approve or provide comments on a proposed sale contract shall not constitute approval.

Section 6. Grant and Loan Agreements; Title Records.

6.01. Grant and Loan Agreements. Every state officer or agency to which proceeds of state general obligation bonds are appropriated to fund a grant or loan to another public officer or agency shall enter into a grant or loan agreement with respect to such proceeds whereby the public officer or agency receiving the grant or loan acknowledges that use agreements relating to and sales of property acquired in whole or in part with the state bond proceeds: (a) are subject to the provisions of the act and this Order, and (b) will be used in a manner which will not cause the interest on the state bonds to be or become subject to federal income taxation, due to their classification as "private activity bonds" within the meaning of Section 141 of the Code, or as "arbitrage bonds" within the meaning of Section 148 of the Code, or for any other reason.

6.02. Title Records. Every public officer or agency which expends state general obligation bond proceeds to acquire or improve real property shall, not later than thirty (30) days after the first such expenditure or as soon thereafter as practical, cause to be recorded in the official real estate title records maintained by the county recorder for the county or counties in which the property is located, a declaration or other appropriate instrument in the form or substantially the same form attached hereto as Exhibit 1. Upon full compliance with the provisions of this order and when appropriate, upon request, the Commissioner of Finance shall execute and deliver to the party requesting it, a written release evidencing the release of the subject property from the provisions of the act and this Order.

Section 7. Amendments; Publication; Effective Date.

7.01. Amendments. The Commissioner retains the right to amend this Order at any time as necessary to accomplish the purposes of the act.

7.02. Publication. The Commissioner intends to publish this Order and any amendments thereto in such manner and at such times as are likely to provide access to its contents by all affected persons, but the Order or any amendment shall be effective upon its issuance without regard to its publication.

7.03. Effective Date. This Order is effective as of its date of execution set forth below.

Executed: July 20, 1995.

Laura M. King,
Commissioner of Finance

<u>EXHIBIT 1</u>

DECLARATION

The undersigned, as owner of fee title to the real property legally described on Exhibit A, which is attached hereto and made a part hereof ("Property"), hereby declares that title to the Property is hereby subject to the following restriction:

> The Property is bond financed property within the meaning of Minnesota Laws 1994, Chapter 643, Section 36, and cannot be sold, mortgaged or otherwise disposed of by the public officer or agency which has jurisdiction over it or owns it without the approval of the Minnesota Commissioner of Finance, which approval must be evidenced by a written statement signed by the Commissioner of Finance and attached to the deed, mortgage or instrument used to sell, mortgage or otherwise dispose of the Property.

Title to the Property shall remain subject to this restriction until (i) the restriction has been fully complied with as evidenced by a written approval from the Minnesota Commissioner of Finance, or (ii) a written release, releasing the Property from the restriction, signed by the Minnesota Commissioner of Finance, is recorded in the real estate records relating to the Property.

Dated: ____________, ______

______________________________

______________________________

______________________________

STATE OF ___________ )<br>
) ss.<br>
COUNTY OF __________ )

The foregoing instrument was acknowledged before me this ___ day of ____________, _____, by __________________, the ___________________ of ________________________, a ____________________ under the laws of ____________________, on behalf of the ____________________.

______________________________<br>
Notary Public

This Instrument Was Drafted By:

______________________________

______________________________

______________________________

# APPENDIX 7
# STATE ACCOUNTING POLICIES AND PROCEDURES

The accounting policies and procedures contained in this appendix are extracted from the Minnesota Accounting and Procurement System (MAPS). These accounting policies specifically relate to the processing of capital appropriations in the statewide accounting system *after* the projects have been authorized in a state bonding bill or appropriation bill.

Policies include instructions to state agencies for processing appropriation entry forms, documenting compliance with associated matching requirements, proper steps for preparing and receiving approval for use agreements, and grant program funding review requirements.

The purpose of including such accounting policies in this manual is to provide agencies and grantees with an up-front understanding of specific capital budget requirements that will apply to their projects, should such requests subsequently be adopted in the bonding bill or other state appropriation bills.

# Capital Appropriations

## Objective

To establish an appropriation account for capital expenditures within the Minnesota Accounting and Procurement System (MAPS). Also, to change the coding of an existing appropriation account or to deactivate an existing account in the system.

## Policy

An appropriation account for capital expenditures established within MAPS is used to record resources which have been appropriated by the Legislature and to record dedicated receipts that the Legislature has authorized an agency to expend for capital projects. Appropriated dollars entered into MAPS are identified as a specific sum or a calculated amount specified in session laws or state statutes.

This recording of appropriated resources and dedicated receipts provides accountability for money which is made available by the Legislature. An appropriation account controls the total amount of an agency's expenditures. It provides a summary of sources and the uses of funding. An appropriation account and at least one allotment must be set up in the system before any money can be encumbered or spent.

Agencies should prepare all Appropriation Entry (AP) forms. An Appropriation Entry (AP) form (FI-00519) will be originated by agencies for direct appropriations and appropriation accounts for spending dedicated receipts. All documents must contain a valid legal citation that will be verified by DOF. The Executive Budget Officer and Capital Budget Coordinator will approve all capital appropriations before they are entered into the system.

Capital projects commonly involve funding from multiple sources. In addition to state funds, non-state sources may include federal, local and private funds. Non-state funds contributed to state-owned projects should be treated as dedicated receipts. Dedicated receipts by law or statute are appropriated funds; MAPS requires an appropriation account to facilitate spending and resource management. Dedicated receipts need to reference an appropriation account before they can be allotted, obligated or spent (see MAPS procedure 0308-01, "Revenue Budgets," for instructions on setting up estimated dedicated receipts). All gift receipts and federal funds that are received or anticipated for financing a capital project should be set up into separate appropriation accounts for each authorization.

In general, agencies that receive federal funds should establish a separate appropriation account for each federal program from which they receive funds. Separate accounts for federal funds are required when federal programs are identified by a separate Catalog of Federal Domestic Assistance CFDA number (see MAPS procedure 0402-01, 0402-02 and 0402-03 for guidelines on federal programs and reporting).

## Forms

| | |
|---|---|
| FI-00367 | Annual Federal Cash Flow Request |
| FI-00398 | Request for Cash Flow Assistance |
| FI-00519 | Appropriation Entry (AP) |
| FI-00523 | Cash Flow Analysis |

## Procedure

***Agency***

1. Identify the legal or statutory authority to spend state capital funds:

   **Direct Appropriations:**
   Agencies will complete the Appropriation Entry (AP) form (FI-00519) to request that Finance establish the direct appropriation.

   **Other Appropriations:**
   Agencies must create all other appropriation accounts, such as for dedicated receipts, before budget account structures can be set up to spend money. Agencies will complete the Appropriation Entry (AP) form (FI-00519) to request that Finance set up the appropriation accounts.

2. Identify the Fiscal Year (FY), Fund, Agency, Organization and Appropriation Unit, which serves as the key to the placement of appropriation accounts within your fiscal structure. Assign an appropriation name, short name, and a three-character appropriation unit, as determined by your agency, to the appropriation account. If the appropriation is for dedicated receipts and it is authorized to receive investment income, the appropriation should include "ITC" on the end of the name. The combination of the Fiscal Year, Fund, Agency, Organization and Appropriation Unit codes must be unique for each separate appropriation account.

   In most cases, the appropriation should be set up in the fiscal year following the authorization (e.g., capital appropriations in Laws 1998 would be set up in FY 1999). An exception to this rule would be salary expenses that should be set up in the current fiscal year.

3. Enter the amount of the appropriation on the necessary form for each direct appropriation account.

4. Enter required codes that the system will use to validate the creation of an appropriation account. These codes include the Legal Citation and Section-Sequence.

   The required formats for the legal citation's 25-character field as they apply to capital appropriations are as follows:

**Session Law Citation**

**For all citations that are bonded, direct appropriations from the building fund:**
Format: YR_ _CHAP_ART_SECT_SUBD_ FUND _ _ _
Example: 98*_ 123_ 00 _ 000 _____ __________
The star * should be replaced with a special session number or left blank. Enter only the session year, chapter number. The article number and section fields are to be filled with zeroes, and the remaining fields are to be left blank.

**For all citations that are bonded, direct appropriations from other than the building fund:**
Format: YR_ _CHAP_ART_SECT_SUBD_ FUND _ _ _
Example: 98*_ 123 _ 00 _ 008 _____ __________
The star * should be replaced with a special session number or left blank. Enter only the session year, chapter number, article number and section number; the remaining fields are to be left blank.

**For all citations that are non-bonded, direct appropriations from any fund:**
Format: YR_ _CHAP_ART_SECT_SUBD_ FUND _ _ _
Example: 98*_ 123 _ 00 _ 123 _ 002 _ 110 _ _ _ Enter all fields.
The star * should be replaced with a special session number or left blank.

**The required Section-Sequence code for all bonded, direct capital appropriations is A96** (this is necessary for tracking to meet federal arbitrage regulations).

5. Determine whether the account has authority to accept dedicated receipts. If the dedicated receipts will be based on reimbursement for expenditures and receipts will not be posted until after the expenditures are made, complete an Annual Federal Cash Flow Request form (FI-00367) for federal funds or a Request for Cash Flow Assistance form (FI-00398) for other funds. See Procedures 0306-03, AFederal Cash Flow≅ for Federal Funds or Procedure 0306-04, "Temporary Cash Flow for Non Federal Funds," for other funds. The Cash Flow Analysis form (FI-00523) must accompany either form.

6. The following are the correct Budget Authority codes for capital appropriations:

   **MAPS Budget Authority Codes:**

   *N* -- For all direct appropriations
   *O* -- For all dedicated receipt appropriations

7. The following is the correct Appropriation Type code for capital appropriations:
   **MAPS Appropriation Type Codes:**
   02 -- Appropriations that span multiple fiscal years. This requires an appropriation end date to be entered on the Appropriation Entry form. If an exact end date is not known, an estimate can be entered, will be reviewed at the appropriate time, and can be modified by the agency at a later date.

8. If your agency uses the Project or Job modules of MAPS, determine the appropriate coding necessary for the Project/Grant indicator on the appropriation document.

   The Project/Grant indicator determines whether a project, job and/or grant code must be coded on accounting documents that reference the appropriation and indicates whether hard error messages or warning messages should be issued. The following is a list of options that may be chosen for the indicator:

   - Blank -- Project/Job or Grant is not required. This is the default value.
   - Project/Job -- Error when Project/Job is not coded.
   - Grant -- Error when the Grant is not coded.
   - Both -- Error when both Project/Job and Grant is not coded.
   - Grant not coded -- Warning message when Grant is not coded.
   - Project not coded -- Warning message when Project/Job is not coded.
   - Project/Grant not coded --Warning message when both Project/Job and Grant are not coded.

9. Forward the completed form to the agency staff member who is authorized to approve appropriation documents and is responsible for agency budget operations. If correct, this form should be approved and forwarded to your agency's Executive Budget Officer (EBO) in the Department of Finance.

***Executive Budget Officer***

10. The EBO should review the form and its use of coding to ensure that it meets accountability requirements, does not exceed the legal spending authority, complies with legislative intent, and satisfies non-state matching requirements when applicable. If correct, this form should be approved and forwarded to the Capital Budget Coordinator. Rejected forms will be returned to the agency for correction.

***Capital Budget Coordinator***

11. The Capital Budget Coordinator should review the form to ensure that it does not exceed the legal spending authority, complies with legislative intent, and satisfies non-state matching requirements when applicable. If correct, this form should be approved and forwarded to the Department of Finance Budget Operations section. Rejected forms will be returned to the EBO for correction.

***Budget Operations***

12. Budget Operations should review the form to ensure compliance with legislation, conformance with appropriate coding standards, and proper completion. After review, the form will be forwarded to the Department of Finance Agency Assistance section.

***Finance Agency Assistance***

13. The Department of Finance Agency Assistance section should review the form and its use of coding to ensure that it meets MAPS requirements, is coded correctly to meet federal arbitrage tracking requirements, and does not exceed the legal spending authority. Any addition to the legal citation table (LEGL) will be entered by the Agency Assistance staff. After the review, Finance will process the form through Central Input. Agency Assistance will retain the approved form for audit purposes.

14. If the form is rejected by MAPS, the Agency Assistance staff will contact the agency's Executive Budget Officer for instructions to correct the form, or to return it to the agency.

## See Also

GFS User Guide, Volume II, Chapter 1, "Budgeting."
GFS User Guide, "Project Accounting."
0306-03 Federal Cash Flow
0306-04 Temporary Cash Flow for Non-Federal Funds
0308-01 Revenue Budgets
0402-01 Federal Cash Management
0402-02 Single Audit: Accounting (*et al*)
0402-03 Single Audit: Responsibilities (*et al*)
Strategic Capital Budget Plan Instructions Manual
Predesign Manual for Capital Budget Projects
Order of the Finance Commissioner, Executed July 14, 1995; Amended July 20, 1995
Minnesota Statutes 16A.632, 16A.695, 16B.335 and 135A.046

# Capital Appropriations with Matching Requirements

## Objective

To ensure that matching funds are committed or received and properly documented prior to expending capital appropriations from the Minnesota Accounting and Procurement System (MAPS). This policy also ensures that all capital appropriations can be tracked in (MAPS). These requirements apply to all recipients of state capital appropriations.

## Policy

Use of capital appropriations must comply with state constitutional and statutory provisions regarding definitions of eligible capital projects and the proper use of state funds. Bonding bills, appropriation bills, and other session laws commonly specify that a recipient's capital appropriation may not be expended until the recipient has a commitment or receipt of matching funds. Non-state matching sources may include federal, local and private funds.

In order for capital appropriations to be expended from MAPS, sufficient documentation must be received and approved by the Department of Finance which shows that the recipient has complied with all matching requirements contained in the appropriation authorization and all funds necessary to complete the project are in place. This documentation must verify that all non-state funds have been received or legally committed, depending on the specific requirements of applicable state statutes and session laws. Such information is required at the time when the Appropriation Entry (AP) form is submitted.

All appropriations must be established in MAPS to allow for better fund balance tracking. This process commences when agencies submit an Appropriation Entry (AP) form to the Department of Finance. An appropriation document will be entered in MAPS to set up the account and funding. Once the account has been entered, it will be immediately deactivated pending approval of matching requirements. If all conditions have been met and the account should remain active that information should be noted on the appropriation entry form. Capital projects with matching requirements should not initially enter allotments, expense budgets, or revenue budgets. These accounts will be identified by adding 'CAP-' to the beginning of the appropriation name.

It may become necessary to create a "control" account and an "operational" account. This situation may occur if your agency has legal authority to spend only a portion of an appropriation or an agency has received a capital appropriation to be disbursed to multiple grantees. This situation will require that another appropriation account be established in MAPS. The original appropriation account will serve as a "control" account and the new account will function as an "operational" account. As legal authority to spend the funds is met, agencies will process an anticipated transfer (AT) and an actual transfer (TA) of appropriation to move the funds to the operational account. Expenditures will be made only from the operational account.

An appropriation account for capital expenditures established within MAPS is used to record resources which have been appropriated by the Legislature and to record dedicated receipts that the Legislature has authorized an agency to expend for capital projects. Appropriated dollars entered into MAPS are identified as a sum certain or a calculated amount specified in session laws or state statutes.

This recording of appropriated resources and dedicated receipts provides accountability for money which is provided by the Legislature. An appropriation account also controls the total amount of an agency's expenditures. It can provide a summary of sources and the uses of funding. An appropriation account and at least one allotment must be established in the system before any money can be encumbered and spent.

Non-state funds should be treated as dedicated receipts for capital projects which will be owned, developed or managed by the state. Dedicated receipts by law or statute are appropriated funds; MAPS requires an appropriation account to facilitate spending and resource management.

Dedicated receipts need to reference an appropriation account before they can be allotted, obligated or spent (see MAPS procedure 0308-01, "Revenue Budgets," for instructions on setting up estimated dedicated receipts). All gift receipts and federal funds that are received or anticipated for financing a state capital project should be set up into separate appropriation accounts for each authorization.

For projects that will be owned, developed or managed by political subdivisions, non-state matching funds will not need to be deposited in the state treasury. However, in these cases the political subdivisions must provide documentation prior to release of the state appropriations that all non-state funds necessary to complete the projects have been secured or are legally committed.

Agencies should prepare all Appropriation Entry (AP) forms. Direct appropriation forms and all other appropriation documents will be originated by agencies, including appropriation accounts for spending dedicated receipts. All documents must contain a valid legal citation that will be verified by MAPS. The Executive Budget Officer and Capital Budget Coordinator will approve all capital appropriations before they are entered into the system.

State and non-state capital funds may only be used for qualified capital expenditures. Appropriations for capital expenditures may be set up as projects (see MAPS Procedure 0401-01, "Decision-making Rules for Grants, Projects and Jobs") regarding development of project accounts.

In cases where the appropriation language requires a *commitment* of non-state funds rather than *actual receipt* of such funds, written documentation must be provided that the commitment has been obtained and is legally binding.

Please note that pledges do not qualify as a commitment unless converted into cash or a cash equivalent through a loan or irrevocable letter of credit from a third-party financial institution. Cash contributions must be deposited in a restricted, segregated account. Commitments of federal funds must be demonstrated by an appropriation identified in federal law or a grant award letter from a federal agency. Commitments of matching funds from local governments must be demonstrated by funds in a segregated account, an approved budget line item, or a full funding resolution enacted by the local governing body.

All capital funds must produce new or additional value in project assets. Loans or letters of credit supported by operating revenues are not considered eligible matching funds because they do not improve the project's balance sheet. In such cases, increased asset values on the balance sheet are offset by loan payable obligations.

Documentation for in-kind contributions, when permitted by law, must include the name of the contributor, a description of the contribution, and the details of how the amount of the in-kind contribution or service was determined. The value of land or buildings donated to a project should be included when estimating total project costs and may be considered as part of a matching contribution if used exclusively for the purpose of the new capital project. The value of contributed land or buildings should be documented through means such as a qualified appraisal.

In some cases, capital appropriations are authorized for recipients to be used as project grants for distribution to other entities based on various matching formula. Examples include Minnesota Historical Society local preservation grants, Department of Transportation local bridge replacement grants, and Department of Natural Resources local recreation grants. In these cases, the agency named in the appropriation bill is responsible for releasing grant funds and must ensure that grantees satisfy applicable matching requirements. It is not the intent of the Department of Finance to review each of the individual awards of these grant programs. However, a copy of program and grant application rules which describe applicable matching requirements for grantees must be presented to DOF for review and approval when requesting activation of an inactive appropriation account.

The methodology and schedule for state payments to local grantees should be clearly identified in a grant agreement as prepared by the state agency and reviewed by the Attorney General's office. Grant agreements may be structured as either an end grant (in which state payments are disbursed to the grantee at project completion) or as a construction grant (in which state payments are disbursed to the grantee as costs are incurred). In a construction grant, state reimbursements are typically disbursed on a pay-as-you-go basis as a percentage of total project costs.

Specific questions on matching requirements may be addressed to the DOF Executive Budget Officer (EBO) or Capital Budget Coordinator.

## Forms

FI-00519 Appropriation Entry (AP)

## Procedure

### *Agency*

1. To enter or modify capital appropriations with matching requirements, identify the legal or statutory authority to spend state capital funds and follow the multi-step approval process specified in MAPS Procedure 0302-01, "Capital Appropriations."

2. Enter "CAP-" to the beginning of the appropriation name.

3. At the time of submission of the Appropriation Entry (AP) form to the Department of Finance, make a note on the form indicating if the match requirements have been met or if the account should be "inactive". If the account should remain "active", attach sufficient documentation to prove compliance with matching requirements contained in the bonding bill and session law.

**See Also**

GFS User Guide, Volume II, Chapter 1, "Budgeting."
GFS User Guide, "Project Accounting."
0306-03 Federal Cash Flow
0306-04 Temporary Cash Flow for Non-Federal Funds
0308-01 Revenue Budgets
0402-01 Federal Cash Management
0402-02 Single Audit: Accounting (*et al*)
0402-03 Single Audit: Responsibilities (*et al*)
Strategic Capital Budget Plan Instructions Manual
Pre-design Manual for Capital Budget Projects
Order of the Finance Commissioner, Executed July 14, 1995; Amended July 20, 1995
Minnesota Statutes 16A.632, 16A.695, 16B.335 and 135A.046

# Capital Appropriations with Other Legal Requirements

## Objective

To ensure that the use of capital appropriations complies with the State Constitution, statutes, and session laws regarding definitions of eligible capital projects and the proper use of state bond proceeds.

## Policy

In increasing numbers over the last several years, private and non-profit (non-public) organizations have been seeking appropriations from general obligation bond proceeds for construction or remodeling of capital facilities. The Minnesota Constitution does not allow for general obligation bond proceeds to be appropriated directly to non-public organizations. The Constitution states that "Public debt may be contracted and works of internal improvement carried on for the following purposes...", which include, "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 1994, the Department of Finance drafted guidelines on the use of bond proceeds by non-public organizations and the Legislature incorporated these guidelines into a new law, Minnesota Statutes 16A.695, thus establishing requirements for the use of state general obligation bond proceeds by non-public organizations. The legislation also established requirements related to the sale of property financed by state general obligation bond proceeds.

## Order of the Commissioner, Dated July 20, 1995

The 1994 legislation required the Commissioner of Finance to establish an Order relating to use and sale of state bond financed property. That Order was executed on July 14, 1994 and amended on July 20, 1995. A copy of the Commissioner's Order may be obtained by contacting the Department of Finance.

Private parties and non-public organizations are not directly eligible to receive state general obligation bond proceeds. State general obligation bond proceeds may only be used for projects of this type if such proceeds are appropriated to political subdivisions. In this situation, political subdivisions must have a public program managed by a non-public organization in a facility funded by general obligation bond proceeds and owned by the political subdivision.

State agencies and political subdivisions that receive appropriations of general obligation bond proceeds to be utilized by non-public organizations or expect to sell property that was financed in whole or in part by general obligation bond proceeds should review the Order in its entirety and consult with their legal advisors.

Political subdivisions and non-public organizations should review the Commissioner's Order to understand the requirements that they will have to follow when seeking bond financing for their capital improvements and the requirements related to sale of bond-financed property in the future.

The main points contained in the Commissioner's Order include the following:

- State general obligation bonds can be issued only to finance publicly-owned land, buildings or improvements to be used to conduct governmental programs of the state and its political subdivisions.
- "State bond-financed property" means property acquired or bettered in whole or in part with the proceeds of state general obligation bonds.
- A use contract between a public agency and a non-public party can be entered into only for the express purpose of carrying out a governmental program established by law and authorized by official action of the contracting public officer or agency.
- The use contract must provide for on-going program supervision by a public officer or agency, which includes the right of termination, and must be approved by the Commissioner of Finance.
- Certain requirements apply to the sale of state bond-financed property and associated reimbursements to the State of Minnesota.
- Additional legal requirements that can only be understood by reviewing the Order of the Commissioner in its entirety and consulting with agency legal advisors.

**Please note that the above information is only a brief and summarized version of the Commissioner's Order. All interested parties are strongly encouraged to read the complete Order to obtain a full understanding of all applicable requirements.**

Projects that are financed by funding sources other than state general obligation bonds typically have fewer Constitutional and statutory requirements that apply regarding public ownership. In these cases, the facility or asset receiving state funds (other than general obligation bond proceeds) is not required to have public ownership unless specified in the appropriation act. In all cases, however, the public purpose prescribed in the appropriation act is expected to continue throughout the life of the facility or asset.

In order for capital appropriations to be loaded into MAPS, sufficient documentation must be provided to and approved by the Department of Finance which evidences that the recipient has complied with all legal requirements contained in the appropriation authorization, M.S. 16A.695, and the Commissioner's Order, when applicable. Such information is required before the time of submittal of the Appropriation Entry form. Legal documents specified in the Commissioner's Order must be reviewed and approved by the Attorney General's office and Finance before the appropriation is loaded into MAPS.

Questions regarding the Commissioner's Order may be forwarded to Peter Sausen, Assistant Commissioner for Cash and Debt Management, Department of Finance, at (651) 296-8372.

## Procedure

***Agency***

1. To enter, modify and delete capital appropriations with legal requirements contained in M.S. 16A.695 and the Order of the Commissioner, identify the legal or statutory authority to spend state capital funds and follow the multi-step approval process specified in MAPS Procedure 0302-01, "Capital Appropriations."

2. Prior to the submission of the Appropriation Entry (AP) form to the Department of Finance, legal documents specified in the Commissioner's Order must be reviewed and approved by the Attorney General's Office and Assistant Commissioner for Cash and Debt Management.

**See Also**

GFS User Guide, Volume II, Chapter 1, "Budgeting."
GFS User Guide, "Project Accounting."
0306-03 Federal Cash Flow
0306-04 Temporary Cash Flow for Non-Federal Funds
0308-01 Revenue Budgets
0402-01 Federal Cash Management
0402-02 Single Audit: Accounting (*et al*)
0402-03 Single Audit: Responsibilities (*et al*)
Strategic Capital Budget Plan Instructions Manual
Predesign Manual for Capital Budget Projects
Order of the Finance Commissioner, Executed July 14, 1994; Amended July 20, 1995
Minnesota Statutes 16A.632, 16A.695, 16B.335 and 135A.046

# Capital Appropriations With Program Funding Review Requirements

## Objective

To ensure that the use of bonding appropriations complies with statutory requirements so that recipients of capital grants from bond proceeds demonstrate to the commissioner of the agency making the grant that the recipient has the ability and a plan to fund the program intended for the facility. This requirement only applies to projects funded from general obligation bond proceeds; it does not apply to projects financed by other state funding sources.

## Policy

The 1996 bonding bill (Laws of Minnesota 1996, Chapter 463, Section 32) amends Minnesota Statutes 16A.695 to require that agencies with bonding appropriations for capital grants to other recipients have an expanded oversight responsibility in reviewing the financial capability of the grant facility=s operating program. The statute, as amended, reads in part, A ***Recipients of grants from money appropriated from the bond proceeds fund must demonstrate to the commissioner of the agency making the grant that the recipient has the ability and a plan to fund the program intended for the facility. A private nonprofit organization that leases or manages a facility acquired or bettered with grant money appropriated from the bond proceeds fund must demonstrate to the commissioner of the agency making the grant that the organization has the ability and a plan to fund the program intended for the facility.≅***

The purpose of this MAPS operating policy is to provide guidance to agencies regarding the type of information to be requested of grantees in order to demonstrate to the agency making the grant that a satisfactory program has been developed by the grantee for operation of the facility. Agencies should solicit necessary information in order to make this determination in the course of receiving grant applications and/or prior to loading the appropriation into the accounting system and disbursing the grant funds.

Generally, the ability of a grantee to successfully operate an anticipated facility will likely vary depending on a number of circumstances, including the type of facility to be constructed, program costs, funding sources, and the grantee=s experience in operating similar facilities or public programs.

The threshold of information necessary to demonstrate an anticipated, successful operation may also vary. For example, the amount of information needed to demonstrate a satisfactory funding plan for an expanded or replacement facility for a public entity to house a public program which has been in successful operation for a number of years might logically be less than the amount of information requested for a start-up facility to be managed by an organization with no previous program operating experience.

In the case of the first example, a resolution of the public entity=s governing board that establishes multi-year funding for the continued operation of the facility or its public budget that includes adequate program funding may be viewed as a satisfactory level of information to be provided to the agency making the grant. In cases in which the facility will be operated by a non-profit group or will be managed by a public entity with little or no experience in the operation of a particular program or facility, a wider range of financial information and documents should be requested in order to provide assurances of the grantee=s *plan and ability* to successfully operate the facility.

Such financial documents may include:

X General information on the organization, management structure, and mission of the recipient;

X Annual financial statements from the last three to five years, budget for the current fiscal year and for the first full year of the facility=s operation, pro-forma income and expense projections for a three to five year horizon, and a detailed listing of all non-state funding sources for capital and operating expenses including pledge commitments; and Assumptions used in making pro-forma income and expense projections and their justifications.

The agency should undertake a financial analysis of the documents presented including consideration of management capabilities, revenue and expense trends, determination of the availability of unrestricted balances and other reserves to provide necessary liquidity, comparison of the past financial performance of the organization or facility in comparison to prior year budgets, and examination of the underlying assumptions and reasoning of the revenue and expense projections.

Upon completing review of these or other documents, the agency should make a determination as to whether the grantee has successfully demonstrated their plan and ability to fund and manage the program anticipated for the facility. This determination should be presented in writing to the Department of Finance=s Executive Budget Officer (EBO), along with a copy of the financial documents reviewed by the agency, no later than the time at which an Appropriation Entry form is submitted for approval to load the appropriation into the accounting system. This information will be subject to review by the Department of Finance to ensure that the statutory review requirement has been met.

If an agency making a grant does not have the capability to adequately analyze these financial documents or is otherwise unable to make a determination of the recipient=s plan and ability to successfully operate the public program, the agency may request that the Commissioner of Finance convene a meeting of the state non-profit review committee to provide such analysis. For more information regarding this process, please contact the Assistant Commissioner for Cash and Debt Management with the Department of Finance.

Please note that it is not the intent of the Department of Finance to review each grant award of a capital appropriation intended for disbursement to multiple grantees from agencies which can demonstrate a successful history in awarding capital grants for that program. In this situation, the agency may submit a copy of program funding policies or grant application rules that demonstrate an overall satisfactory program funding review process, rather than submitting individual project certifications and financial documents for each grant.

Specific questions on program funding review requirements of M.S. 16A.695 and this MAPS policy may be addressed to your assigned EBO.

## Procedure

### *Agency*

1. To enter, modify and delete capital appropriations with program funding review requirements, identify the legal or statutory authority to spend state capital funds and follow the multi-step approval process specified in MAPS Procedure 0302-01, ACapital Appropriations.≅

2. Prior to or at the time of submission of the Appropriation Entry form to the Department of Finance, the agency must provide a written certification that the recipient has satisfied the program funding review requirements of the law. In addition, a copy of the financial documents reviewed by the agency in the course of making their determination must be provided. All information will be subject to approval by DOF to ensure that an adequate project review has been completed or a satisfactory review process has been established by the agency.

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