



# The Capital Budget Process for Political Subdivisions

May 29, 2019

# Agenda

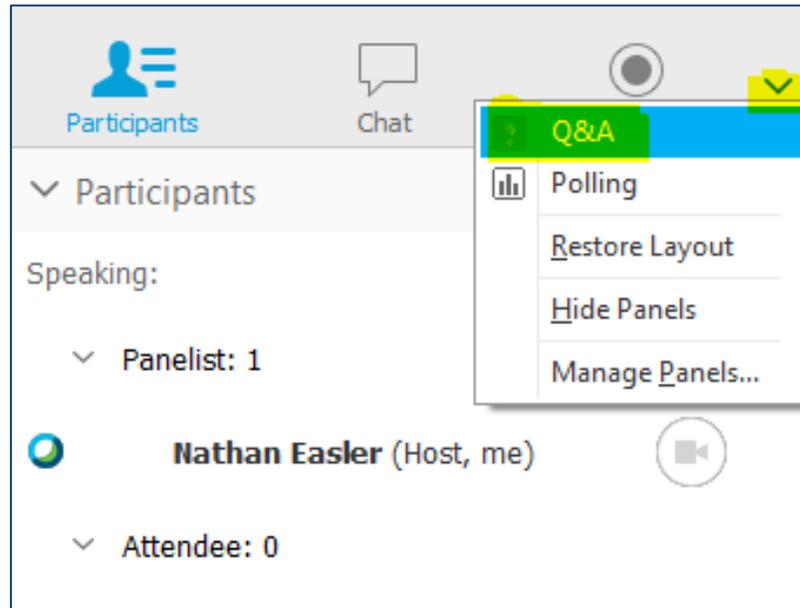
1. Housekeeping
2. Overview of the Capital Budget Process
3. Demo of the Capital Budget System (CBS)
4. Question & Answer

## Today's Training

- Presenter is Liz Connor, Host is Nathan Easler
- One hour session
- Phone lines are muted upon entry – please leave your line muted
- Use the Question & Answer feature to pose questions. Questions will be held and answered at the end of the training session
- Please email [budget.finance.mmb@state.mn.us](mailto:budget.finance.mmb@state.mn.us) during or after the training with Capital Budget questions. This is the preferred contact for system questions, user authorizations, etc.

# WebEx Question & Answer

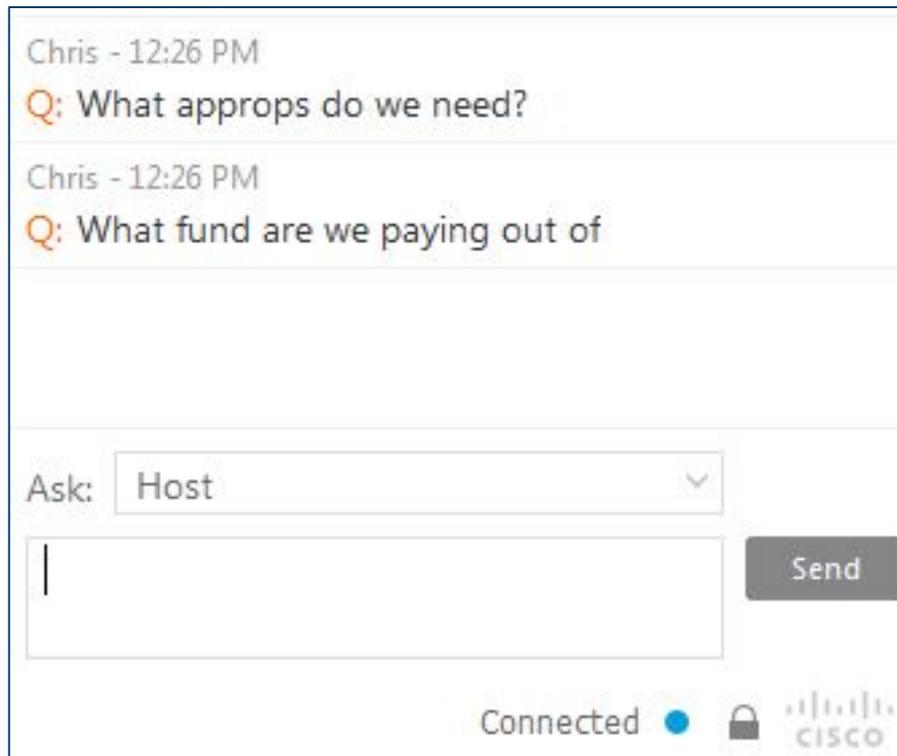
- In the upper right hand corner of the WebEx window, click the down arrow and select Q&A



- Close the Chat feature by unchecking the Chat balloon or clicking the X in the Chat panel

# WebEx Question & Answer

- To send questions, click Send to Host (Nathan Easler). Questions will typically be held and answered at the end of training



# When and How Are Capital Requests Submitted?

# Preliminary 2020 Timeline Overview

Year	Timeframe	Action
<b>2019</b>	<b>March - May</b>	MMB authorizes Capital Budget System users and provides training
	<b>May - June</b>	Local governments can submit project requests in the Capital Budget System. <b><u>Deadline to submit projects is June 14.</u></b>
	<b>June - Oct</b>	MMB staff review requests and conduct site visits as needed
	<b>July 15</b>	Preliminary capital budget submission to legislature
	<b>Mid Oct</b>	Last chance to make changes to capital budget requests
<b>2020</b>	<b>January 15</b>	Final capital budget requests and Governor's recommended capital budget submitted to legislature
	<b>May 18</b>	Legislature adjourns

# Capital Budget System (CBS)

- All requests must be entered into the Capital Budget System (CBS) with information required by statute and details sufficient to allow for meaningful consideration of the project by the Governor and Legislature.
- CBS is a web-based application, and opened for 2020 capital budget project submissions beginning on May 2, 2019.
- CBS users must be officials or staff of political subdivisions, and must be authorized by MMB
  - School districts
  - Counties
  - Cities

# Which State Agencies Will Local Governments Work With?

# Agencies, Programs, and Procedures

## Minnesota Management & Budget

- Provide instructions and forms
- Review proposals for completeness and bondability
- Collect and disseminate information to Governor and Legislature
- Calculate the cost of proposed bonding packages
- Forecast debt service costs of future bonding bills based on a ten year average of bond authorizations
- Assist with implementation issues after enactment

# Agencies, Programs, and Procedures

## Department of Administration

- Predesign must be reviewed by the Department of Administration before design begins
- Capital projects are expected to employ sustainable building guidelines and high performance building practices ([M.S. 16B.325](#)).

## Granting Agency

- If a local government project is enacted in a bonding bill, the appropriation must be made to a state agency for a grant to the local unit of government

# What Information Is Submitted & How Will It Be Used?

# Information Provided in Capital Budget Requests

- Requests by amount, in priority order (if more than one request)
- Brief summary of each project request
- Detailed description of the project
- Rationale for why the project is needed
- Timeline for project
- Other relevant background information
- All funding sources (past and requested)
- Detailed listing of costs
- Answers to applicable statutory requirements
- Resolution of support from the governing body

# What Information Will Be Published By MMB?

Detailed project information submitted in CBS will be published in 3 reports:

## 1. Projects Summary

- A listing of all requests from each entity on one form.
- Projects are displayed according to priority ranking.
- Funding requests are shown for 2020, 2022, and 2024.

## 2. Project Narrative

- Includes a brief summary of each request, the amount, priority rank, detailed description and rationale, and other background information.

## 3. Project Detail

- Includes all funding sources and project costs for each request (which must match), and lists applicable statutory requirements.

# MMB's Evaluation of Capital Projects

- Is the project eligible for general obligation bond funding?
- Has all required information been entered in CBS, including statutory requirements?
- Do Funding Sources equal Project Costs (projects cannot be submitted if totals do not match)?
- What problem does the project address?
- Does the project serve a statewide or regionally-significant purpose?
- Can the project be completed in phases?
- Does the project have the required 50% nonstate match?

# Evaluating Capital Projects (*continued*)

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

# Are There Restrictions on Spending GO Bond Proceeds?

# Projects Eligible For State G.O. Bond Financing

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

# Allowable Capital Expenditures

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

# Ineligible Capital Expenditures

## Examples include:

- Options to purchase land or buildings
- Fixtures, furnishings and equipment that don't meet new facility/purpose standard
- General studies to evaluate the need for a capital project
- Educational, promotional or informational costs incurred for a project not yet sited
- Computer and financial modeling for a project not yet sited
- Master planning

# Ineligible Capital Expenditures \* (*continued*)

Examples include:

- All relocation and moving costs
- Operating and maintenance costs
- Betterments to leaseholds with less than a 10-year term
- Software and data management systems
- Personal computers
- Marketing expenses

*\*This is not an exhaustive list*

# Restrictions on Use of GO Bond Financed Property

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

# Use Contracts

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

# Examples of Private Use \*

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

*\*This is not an exhaustive list*

# What Additional Requirements Apply to Local Projects?

# Grant Agreements

- Required when a state agency funds a grant to another public entity (“local projects”)
- Not required if appropriation is made to a state agency for its own capital needs
- MMB has prepared [generic forms](#) for state agency use
- Forms are slightly different depending on funding source:
  - GO bond funds disbursed under an agency program
  - Other GO bond-funded projects
  - General fund (cash)

# Statutory Authority & Program Operation

- Grantee must have independent statutory authority to operate the project (for example, via charter or statute)
- The bonding legislation alone does not normally provide authority to operate the project or program
- Grant recipients must demonstrate to granting agency that they have an ability and plan to fund the program intended for the facility
  - If operated by a public entity:
    - Entity must submit to granting agency a budget item or resolution supporting operation
  - If operated by a private party:
    - Granting agency must approve initial program implementation plan
    - Annually, granting agency must review program evaluation report and budget

# Full Funding Requirement

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

# Statutory Requirements and Bonding Resources

# Statutory Requirements for State-Funded Projects

- **M.S. 16B.323: Solar Energy in State Buildings.** Up to 5% of appropriation to be used on Solar energy system- any new building that receiving bond funds, includes additions and major interior configuration or energy system.
- **M.S. 16B.325: Apply Sustainable Guidelines (B3-MSBG)** for new buildings & major renovations (<http://www.b3mn.org/guidelines/index.html>)
  - M.S. 216B.241 Sustainable Building SB 2030 requirements
  - Contact/support: <http://www.b3mn.org/guidelines/index.html>
- **M.S. 16B.326: Heating and Cooling Systems.** Written plan w/predesign to consider providing Geothermal & Solar Energy Heating & Cooling Systems on new or replacement HVAC systems
- **M.S. 16B.335, subd. 1: Notification to Legislature.** Notification to select House & Senate members prior to final plans. Legislative response is needed prior to preparing final construction documents.

# Statutory Requirements for State-Funded Projects *(continued)*

- **M.S. 16B.335, subd. 3: Predesign submittal.** Predesign packages must be submitted to the Dept. of Administration for approval. Statute exempts certain projects from this requirement.
- **M.S. 16B.335, subd. 4: Energy Conservation Standards.** Projects must comply with standards in M.S. 216C.19 to 216C.20 and <http://www.doli.state.mn.us/CCLD/Codes.asp>
- **M.S. 16B.335, subd. 3c: MINNCORR.** Consider the use of MINNCOR products in specifications.
- **M.S. 177.42-44: Prevailing Wage.** Contractor must pay prevailing wages and hours of labor.

# Statutory Requirements for State-Funded Projects *(continued)*

- **M.S. 16A.695: State Bond Financed Property Requirements.** Various requirements related to leases and management contracts, sale of property, program funding, match requirements, ground leases, and grant agreements.
- **M.S. 16C.285: Responsible Contractor.** Minimum requirements for contractors in order to receive contracts for projects.
- **M.S. 16A.502: Nonstate Commitments.** If an appropriation is less than the total project cost, a sufficient contribution/match from nonstate sources is required.
- **M.S. 16A.86: State Share of Local Projects.** State appropriation cannot exceed half the total project cost. Certain types of jurisdictions and projects are exempt.

# Bonding Resources and Information

- Frequently Asked Questions
  - <https://mn.gov/mmb/budget/capital-budget/faq.jsp>
- Instructions, Policies, and Checklists
  - [Capital grants manual for local governments](#)
  - [Capital grant agreements, instructions, and checklists](#)
  - [Financial policies and procedures for capital projects](#)
- Legal Information
  - [MN Constitution, Article XI, Section 5](#) (bonding authority for public works)
  - [M.S. 16A.695](#) (GO bonding law)
  - [Fourth Amended Commissioner's Order](#) (GO bonding implementation)
  - [Bond counsel opinions](#)

# Questions?

## Budget Process, Capital Requests, Capital Budget System

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## Grant Agreements, Bond Sales, Legal Information

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