



Overview of the Capital Budget Process February 2012

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Capital Budget Process

Goals:

- Create a standardized description of state agency and local government capital projects and their costs to facilitate decision-making
- Collect and present information necessary to evaluate and select capital projects

Capital Budget Process

- Major capital budgets are presented for consideration in even-numbered legislative sessions.
- Capital budgets may be considered in odd-numbered years; a significant bonding bill was enacted in 2011.

Capital Budget Process

Capital budget process guided by the state Constitution and state statutes:

- State constitutional requirements (Article XI, Section 5)
- State statutes:
 - §16A.11 Budget to legislature
 - §16A.86 Capital project grants to political subdivisions
 - §16A.502 Nonstate commitments to capital projects

Constitutional Requirements

- Public ownership
- Expenditures which are capital in nature
- Public purpose
- Project or program must be clearly set forth in the law

Statutory Requirements

§16A.11 Budget to legislature

- Required submission dates (July 15 and January 15)
- Capital projects plan considers a six-year horizon
- Governor's budget must show both recommendations and requests
- Items in Governor's budget must be presented in agency priority order regardless of recommendation

§16A.502 Nonstate commitments to capital projects

- Full project costs must be available before starting

Statutory Requirements *(continued)*

§16A.86 Capital project grants to political subdivisions

- All requests submitted are sent to legislature
- 50% local match is expected, with certain exceptions
- Requests must state:
 - Public purpose to be served
 - Whether project will require new or additional state operating subsidies
 - Whether requesting entity has passed a resolution in support of request and established priorities (if multiple requests made)
 - Whether Dept of Admin. predesign submission has been completed (if required by §16B.335)

Basic Timeline

Date	Action
April 2011	MMB issued instructions for state agencies and local requests
May 2011	Agencies began submitting project information to MMB
June 25, 2011	Deadline for state agency and local project preliminary submissions to MMB
August 23, 2011	Preliminary capital budget submission to legislature (July 15 submission delayed due to shutdown)
Mid October 2011	All final information was due from state agencies
December 1, 2011	MMB issued state budget forecast and debt capacity forecast
January 17, 2012	Governor submitted 2012 Capital Budget to Legislature
Late February 2012	MMB updates state budget and debt capacity forecasts
2012 session	Legislature adopts and Governor approves 2012 bonding bill
Ongoing	Post-enactment assistance

“Off Year” Capital Budget

Much different than even year process:

- Governor not required to submit a capital budget recommendation, but he did so in 2011
- No formal solicitation process for state agencies or local government projects – in the past was typically “emergency” requests
- MMB does not collect information in standard format or produce capital budget books
- MMB may work informally with agencies to understand capital needs

MMB's Role after Bonding Bill Enacted

- MMB approves project appropriations accounts set up in SWIFT
- MMB reviews documentation of local match or other special conditions required by law and approves activation of account once conditions are met
- MMB certifies full project funding requirement is met, if applicable (§16A.502)
- MMB works with agencies and local governments to ensure they are aware of and follow bonding requirements
- MMB monitors private use in bond-financed facilities

Private Business Use Concerns

- MMB is finding more cases of bond-financed facilities being used for private business uses; too much of such use threatens the tax-exempt status of the state's bonds
- Examples of private business use can include: naming rights, rented skyboxes in sports facilities, concessions, broadcast rights, advertising, sponsorships, leased space
- Examples of facilities where private use may occur:
 - Stadiums, arenas and other sports facilities
 - Convention centers
 - Business incubators
- Language suggested in Governor's bonding bill permits MMB to issue taxable bonds for certain projects if they cannot be issued tax exempt

Funding of Capital Projects

- State funds are available for capital projects immediately upon enactment of a bonding bill
- For G.O. bond-funded projects (including trunk highway bonds), money is borrowed from the general fund until the next G.O. bond issue
- Each G.O. bond issue is sized based upon agency estimates of how quickly capital appropriations will be spent

Cancellation of Capital Appropriations

- Commissioner of MMB issues cancellation report by January 1 of each odd-numbered year
- Lists all bond and general fund capital appropriations enacted more than 4 years previously with unspent and unencumbered balances
- The 1/4/11 report showed appropriations from 2006 bonding bill and earlier
 - Bond appropriations reported totaled \$10,109,955.77
 - General fund appropriations reported totaled \$40,621.73
- Such balances are cancelled as of July 1 of the year of the report to give the Legislature a chance to extend them

Connections between Capital Budget and Debt Management Functions

- Amount of debt service to carry in the forecasts
 - Policy has been carry enough debt service in the forecast to cover continuation of the ten-year average GO bond authorization into the future
 - Currently \$775 M in even-numbered years and \$225 M in odd-numbered years
- Addressing “bondability” questions which arise as to a capital budget submission.
- Work together on implementation issues after enactment. Also work with Attorney General’s office or bond counsel on special cases.
- Issue implementation and compliance guidance for state agencies and local governments in a memo called *“After the Bonding Bill”* .