

**TITLE: HF855 - 2009 CAPITAL INVESTMENT BILL – CONFERENCE REPORT**

Hausman; Scalze; Wagenius; Rukavina; Howes  
Langseth; Day; Tomassoni; Lynch; Sieben

**SUMMARY:**

- This bill authorizes \$308M in General Obligation bonds. The original House target was \$200M. The original Senate target was \$330M. The bill also authorizes \$35M in user-financed bonds for the Rural Finance Authority.
- The bill is a disaster relief and jobs bill.
- Two funding items grew substantially in this bill as compared to the original House and Senate bills which passed the respective bodies – flood relief and mitigation projects, and high-speed rail.
- The bill exceeds (by \$3.8M) the Governor’s request for \$50M for flood mitigation projects.
- The bill includes \$17.25M from the DEED Redevelopment Account for local projects, including \$750,000 for a water and sewer connection project from the city of Chisholm to the regional competition and exhibit center. The Governor indicated support for \$7M for wastewater and redevelopment projects through DEED.
- The bill includes many projects vetoed by the Governor in 2007.
- The bill changes the state’s bonding policy by giving Minnesota Management and Budget (MMB) the authority to issue negotiated sale bonds for two years – a response to current market conditions.
- The bill leverages hundreds of millions in federal dollars, mostly in transportation projects (Central Corridor leverages \$450 million alone).

**GENERAL ALLOCATIONS**

<b>AGENCY</b>	<b>HOUSE</b>	<b>SENATE</b>	<b>CONFERENCE</b>
<b>University of Minnesota</b>	\$23M	\$59M	\$51.5M
<b>MnSCU</b>	\$55.27M	\$76.853M	\$78.875M
<b>Education</b>	\$5.78M	\$5.78M	\$5/78M
<b>Natural Resources</b>	\$13.7M	\$29M	\$54.8M
<b>Bd of Water &amp; Soil Resources</b>	\$1M	--	\$500,000
<b>Zoological Garden</b>	\$4M	\$5M	\$3M
<b>Amateur Sports Commission</b>	--	\$5M	-
<b>Military Affairs</b>	\$3.6M	\$3.6M	\$3.602M
<b>Transportation</b>	\$29.5M	\$36.9M	\$54.6M
<b>Metropolitan Council</b>	\$21M	\$41.43M	\$22.6M
<b>Human Services</b>	\$24M	\$5M	\$4M
<b>Veterans Affairs</b>	\$7.138M	\$4M	\$2.5M
<b>Corrections</b>	\$5M	\$10M	\$4M
<b>Employment/Economic Dev</b>	\$700,000	\$45.250	\$17.25M
<b>Housing Finance Agency</b>	\$4M	---	\$2M
<b>Historical Society</b>	\$2.065M	\$2.065M	\$2.165M
<b>MMB (sale expenses)</b>	\$245,000	\$365,000	\$343,000
<b>TOTAL GO BONDS</b>	\$200M	\$329.248M	

**User-Financed Debt Service**

<b>AGENCY</b>	<b>HOUSE</b>	<b>SENATE</b>	<b>CONFERENCE</b>
<b>MN State Colleges &amp; Universities</b>	\$12.635M	\$13.427M	--
<b>Rural Finance Authority</b>	\$35M	--	\$35M
<b>Pollution Control Agency</b>	--	\$25M	--
<b>TOTAL USER FINANCED</b>	\$47.635M	\$38.427M	\$35M

**ARTICLE 1  
BONDING PROJECTS SUMMARY**

<b>HIGHER EDUCATION</b>		
Bell Museum of Natural History University of Minnesota/Twin Cities Campus	\$24M	\$24M vetoed for this project in 2008
National Solar Rating & Certification Lab University of Minnesota/Minneapolis Campus	\$2.15M	
Demo Solar Thermal & Photo Voltaic Systems University of Minnesota/Morris	\$350,000	
<b>HIGHER EDUCATION ASSET PRESERVATION &amp; REPLACEMENT (HEAPR)</b>		
Health and Science Center Addition Lake Superior Community & Technical College	\$11M	\$11M vetoed for this project in 2008
Mesabi Range Community & Tech College (Eveleth) Carpentry, Industrial Mechanical Technology & Shops	\$5.25M	Includes renovations for ADA compliance; \$5M vetoed for this project in 2008
Metropolitan State University Smart Classroom Center	\$5.7M	Build and renovate classrooms and offices in power plant bldg; includes demolition of power plant annex; \$4.9M vetoed for this project in 2008
Minnesota State College, Southeast Technical Aviation Training Center		Net proceeds from sale of aviation center are appropriated to MnSCU for capital project at Winona campus
North Hennepin Community College Center for Business & Technology	\$13.3M	Build addition and renovate for classrooms and related space; \$13.3M vetoed for this project in 2008
<u>MnSCU Systemwide</u> – Central Lakes (Brainerd); MN State Comm. Tech. (Moorhead & Wadena); MN West Comm. Tech. (Pipestone); Northland Comm. Tech. (Thief River Falls); Pine Tech (Pine City); Rochester Comm. Tech. (Rochester)	\$3.625M	Design, build, furnish and equip classroom and academic space; \$3.625M vetoed for these projects in 2008

<b>K-12 EDUCATION</b>		
Independent School District #38, Red Lake	\$5.78M	From maximum effort loan fund; loan to design, build, renovate and equip new facilities at high school/ middle school; \$16M vetoed for this project in 2008

<b>NATURAL RESOURCES</b>		
Statewide asset preservation	\$1M	Renovation of DNR facilities that can be substantially completed in 2009; House-only provision
Flood hazard mitigation grants	\$53.8M	Includes funds to maximize federal appropriations for projects in Ada, Breckenridge and Roseau; remaining funds to specific communities according to agency priorities
<b>BOARD OF WATER AND SOIL RESOURCES (BWSR)</b>		
		Includes requirement that prairie

RIM Conservation Reserve	\$500,000	restorations must plant vegetation only of ecotypes native to MN
--------------------------	-----------	--

<b>RURAL FINANCE AUTHORITY</b>		
--------------------------------	--	--

Farm loan programs (user-financed)	\$35M	Loans to farmers including beginning farmer program, loan restructuring program, livestock improvement loans
------------------------------------	-------	--

<b>MINNESOTA ZOOLOGICAL GARDEN</b>		
------------------------------------	--	--

Asset Preservation and Improvement	\$3M	Design and build improvements to infrastructure and exhibits
------------------------------------	------	--

<b>AMATEUR SPORTS COMMISSION</b>		
----------------------------------	--	--

Asset Preservation at National Sports Center in Blaine	\$1M	\$1.4M for this project vetoed in 2008
--	------	--

<b>MILITARY AFFAIRS</b>		
-------------------------	--	--

Asset Preservation at military affairs facilities	\$3.6M	Match federal stimulus money for backup heating and electricity at specified National Guard Training and Community Centers; ADA, code compliance projects
---	--------	---

<b>TRANSPORTATION (\$54.6M total)</b>		
---------------------------------------	--	--

Local Bridge Replacement and Rehabilitation	\$10M	Includes up to \$300,000 to build a bridge in Staples
Rail Service Improvement	\$3M	
Minnesota Valley Railroad Track Rehabilitation	\$4M	From Norwood-Young America to Hanley Falls
Intercity Passenger Rail Projects	\$26M	Capital improvements for high-speed train to Chicago and Northern Lights Corridor to Duluth (projects not named); \$4M vetoed for Chicago route in 2008; \$1.5M vetoed for Duluth route in 2008
Port Development Assistance	\$3M	\$2M vetoed for this program in 2008
Alexandria Aircraft Surveillance Facility	\$2M	Emergency back-up system
Bigfork Airport Runway	\$1.7M	Extend and rebuild runway
Duluth Airport Terminal	\$4.9M	Phase 1 only

<b>Metropolitan Council</b>		
-----------------------------	--	--

Transit Capital Improvement Program	\$21M	Names corridors eligible for funding but doesn't allocate dollar amounts to those projects; of this amount, \$313,000 is for engineering and design for betterments in state capitol area related to the Central Corridor project.
		Grand Rounds Scenic Byway on St.

Northtown Rail Yard Bridge	\$600,000	Anthony Parkway; \$600,000 for this project vetoed in 2008
Veterans Victory Memorial Parkway	\$1M	Improvements to WWI Veterans Victory Memorial Parkway portion of Grand Rounds Scenic Byway

<b>HUMAN SERVICES (\$4M total)</b>		
Asset preservation at DHS facilities statewide	\$2M	First priority to installing summer boiler system at MSOP at Moose Lake and capital improvements at St. Peter Regional Treatment Center to increase energy efficiency
Early Childhood and Learning Facilities	\$2M	Grants to build and rehab childcare facilities; \$2M for this purpose vetoed in 2008

<b>VETERANS AFFAIRS (\$2.5M total)</b>		
Asset preservation at DHS facilities statewide	\$1M	Of this amount, \$600,000 for HVAC replacement and foundation waterproofing at Mpls Veterans Home; \$350,000 for roof replacements at Hastings Veterans Home
Veterans Cemeteries	\$1.5M	Of this amount, \$500,000 to acquire land in Redwood County and northeastern MN for publicly owned veterans cemeteries

<b>CORRECTIONS (\$4M total)</b>		
Asset preservation at correctional facilities statewide	\$4M	First priority to installing summer boiler system at MSOP at Moose Lake and capital improvements at St. Peter Regional Treatment Center to increase energy efficiency

<b>EMPLOYMENT AND ECONOMIC DEVELOPMENT (\$17.25 total)</b>		
Grant to St. Louis County for infrastructure from Chisholm to regional competition and exhibit center	\$750,000	DEED can't make funds available until local match identified; \$750,000 for this project vetoed in 2008
Mankato - Civic Center Expansion	\$6.5M	\$975,000 for this project vetoed in 2008
Minnesota Shubert Performing Arts and Education Center	\$2M	
Olmsted County Steam Line Extension	\$5M	Approx. 1.25 miles of new steam pipeline from Olmsted Waste-to-Energy Facility to Rochester Community and Tech. College

		Campus
St. Cloud Civic Center Expansion	\$3M	Phase 1 only

<b>HOUSING FINANCE AGENCY (\$2M total)</b>		
Projects to rehabilitate public housing	\$2M	

<b>HISTORICAL SOCIETY (\$2.165M total)</b>		
Historic sites asset preservation	\$2.165M	Up to \$100,000 may to design and renovate Rock Island Bridge between Inver Grove Heights and St. Paul Park

**ARTICLE 2  
Disaster Relief  
GENERAL ALLOCATIONS**

<b>AGENCY</b>	<b>CONFERENCE AMOUNT</b>
<b>Public Safety</b>	\$9.18M
<b>BWSR</b>	\$2M
<b>Education</b>	\$173,000
<b>DEED</b>	\$200,000
<b>Housing Finance</b>	\$2.7M
<b>Revenue</b>	\$250,000
<b>Human Services</b>	\$250,000
<b>Transportation</b>	\$2.9M
<b>TOTAL DISASTER RELIEF</b>	\$17.613M

**ARTICLE 3  
HUGO TORNADO RELIEF**

The bill allocates \$350,000 to DEED for a grant to the city of Hugo for debris clearance and other disaster costs resulting from the May 25, 2008, tornado.

**ARTICLE 4  
ST. CHARLES SCHOOL DISTRICT RELIEF**

The bill allocates declining pupil aid to the St. Charles School District. The aid is calculated as the lesser of \$242,000 or the product of \$5214 and the number of adjusted pupil units lost during FY 2010 and 2011 as the result of the April 2009 fire.

**POLICY BACKGROUND**

**AUTHORITY FOR PRIVATE ISSUE BONDS:** The bill allows MMB to also sell bonds through negotiated sales. This authority is granted for two years. Under *M.S. 16A.641, Subd. 4*, Minnesota bonds must be sold and issued in competitive bids.

In a competitive sale, bonds are sold to large institutional investors. In a negotiated (retail) sale, smaller investors are able to buy the bonds as well. MMB is proposing this change because in the current economic environment, bond sales are driven by retail (individual) rather than institutional investors.

MMB officials report that many states are using private issue bonds with much success. For example, on April 29, the state of Tennessee sold a \$389M issue for 3.5%, using a mix of competitive bid bonds and more than 50% retail bonds.

### **NATURAL RESOURCES ASSET PRESERVATION AND REPLACEMENT (NRAPR) – H.F. 983 (Hansen)**

In response to a recent Department of Natural Resources' report indicating that the Department is about \$120 million behind schedule in facility maintenance and preservation, the bill includes a plan for the replacement and preservation of DNR buildings and recreation facilities.

The bill establishes the Natural Resources Asset Preservation and Replacement program, patterned after a similar program for facility repairs and replacement at higher education institutions. The program is intended to streamline requests for DNR bonding projects so that legislators are not competing for funding by introducing dozens of bonding proposals each session.

According to the report, there is \$25 million in deferred maintenance projects, such as roofing, plumbing, heating, electrical and structural upgrades, for DNR buildings. Another \$15 million is needed for repairs to septic and sewer systems, water resources and parking lots. In addition, an estimated \$80 million is necessary to upgrade recreational areas, such as campgrounds, state trails, wayside rest areas and water access locations.

The program would allow up to 10 percent of any appropriation to be used for design costs for eligible projects, which would be prioritized by the DNR. By Jan. 15 each year, a list of the projects completed the previous year, as well as proposed projects for the current year, would need to be submitted to the Commissioner of Finance and the Legislature.

### **HIGH-SPEED RAIL TO CHICAGO**

The American Recovery and Reinvestment Act (ARRA) includes competition for \$8 billion in federal money to begin high-speed corridors in a half-dozen regions of the country. Included are several potential lines running outward from a Midwestern hub in Chicago. One of the lines under consideration is a route to the Twin Cities. H.F. 855 contributes to the cost of this project

### **FISCAL CONSIDERATIONS:**

#### **DEBT MANAGEMENT GUIDELINES – The bill is within MMB's debt-to-personal income guideline.**

There is no constitutional or statutory limitation on how much debt the state may incur. However, since 1979, MMB has had guidelines intended to maintain the state's good credit rating, "minimize state borrowing costs, and provide a reasonable financing capacity within a prudent debt limit." While the public focus has been on one item in these guidelines – the 3% limit on debt as a percentage of non-dedicated revenues – there are four other guidelines to consider.

The debt management guidelines are as follows:

- The General Fund appropriation for debt service should not exceed 3 percent of non-dedicated revenues;
- The G.O. debt of the state should not exceed 2.5 percent of total personal income;
- The total amount of all GO debt, moral obligation debt, state bond guarantees, equipment capital leases, and real estate leases should not exceed 5 percent of total personal income;
- The total revenue and GO debt of state agencies, public corporations, and the University of Minnesota should not exceed 3.5 percent of total personal income; and
- 40 percent of GO debt must be due within five years and 70 percent within ten years, which is a relatively aggressive repayment schedule.

According to MMB, the current level of debt as a percentage of total personal income is 2.43%. (This percentage includes the forecast of \$120M for off-year emergency bonding authority.) **Passage of the House bill would increase this percentage to 2.47%, which is under the 2.5% guideline.**<sup>1</sup>

The following chart outlines the impact of H.F. 855 on the 3% limit.<sup>2</sup> ***It is important to note that these percentages are based on the February forecast level of non-dedicated General Fund revenues.*** Thus, if revenues are raised, this percentage will change. Revenue changes could occur due to increased tax collections or changes in employment or income numbers.

SIZE OF BONDING BILL	2010-11	2012-13	2014-15
No bonding bill (Governor)	3.46%	3.37%	3.02%
\$ 120M bonding bill	3.5%	3.45%	3.10%
\$200M bonding bill (House)	3.53%	3.5%	3.15%
\$330M bonding bill (Senate)	3.57%	3.59%	3.25%

**COMPLETION FIGURES – RECENT BONDING BILLS**

According to Minnesota Management and Budget, the estimated total amount of authorized but unencumbered projects from recent bonding bills equals \$1.142 billion.<sup>3</sup>

—

<sup>1</sup> Minnesota Management and Budget estimate, based on data from Global Insight.

<sup>2</sup> Minnesota Management and Budget estimate

<sup>3</sup>