



Governor Jesse Ventura's FY 2002-03 Capital Budget Recommendations

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This paper summarizes the Capital Budget recommendations submitted to the Legislature by Governor Jesse Ventura. Part one provides an overview of the capital budget recommendations. Part two provides detailed recommendations organized according to the jurisdictions of the House of Representatives' fiscal committees. The Governor's supplemental budget recommendations are summarized in a separate Money Matters.

Overview of Capital Budget Recommendations

Detailed Budget Recommendations

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Capital Budget Overview

On January 14, 2002, Governor Ventura introduced his capital budget recommendations for the 2002 legislative session. Nearly \$2 billion worth of project requests were submitted for consideration by the Governor, and of those submitted, Governor Ventura recommends \$845 million worth of new project spending from all financing sources.

Of the \$845 million in recommendations, \$746 million will be paid for with general obligation or GO bonds. Debt service on GO bonds comes from the state general fund. Planning estimates for the 2002 bonding bill were for a \$400 million capital investment bill. The Governor's recommendations will require additional dollars from the general fund to pay debt service over what had been provided for in the 2001 budget. Increases in debt service of \$4.6 million for 2003, and \$55.3 million for the 2004-05 biennium will be required to meet the increased obligation.

Table 1

Governor's Recommended Capital Budget by Functional Area <i>(dollars in thousands)</i>		
Finance Area	Recommended Spending	
New Projects:		
K-12 Education		\$21,564
Higher Education		\$220,573
Economic Development		\$15,961
Environment		\$153,614
Transportation		\$235,500
State Government		\$127,555
Health and Human Services		\$28,572
Judiciary Finance		\$30,420
Grants to Political Subdivisions		\$10,000
Bond Sale Expenses		<u>\$800</u>
	GO Bonds	\$745,914
	General Fund	\$2,271
	Trunk Highway Fund	\$30,546
	User Financed	<u>\$65,828</u>
	Total All Funds	\$844,559
Cancellations:		
	GO Bonds	(\$500)
	General Fund	(\$10,827)
Net Recommended Spending All Funds		\$833,232

Along with \$746 million in recommended general obligation spending, the Governor recommends \$30.5 million in trunk highway cash to fund improvements in facilities owned by the Department of Transportation. In addition, Governor Ventura recommends \$2.3 million in general fund cash projects and \$65.8 million in user financed projects. User financed debt service can be in the form of charges to higher education institutions for one third of the cost of new construction projects, or in the form of loan programs that are repaid by the borrower, such as agricultural loans. Table 1 outlines recommended spending by category.

Table 1 shows \$0 for spending on Grants to Political Subdivisions. The Governor does, however, recommend \$70 million for Metropolitan Council projects, defined as a political subdivision by M.S. 473.123.

Debt Capacity

Minnesota's debt capacity is an estimation of how much the state can borrow, projected for the current year or biennium. During the state financial crunch of the late seventies, the state's bond rating fell from a "AAA" rating, the highest possible rating, to a "AA" rating. Bond ratings denote the financial strength of the borrower. A highly rated bond is a safer investment, but brings a lower rate of return to the investor. Because the lower bond rating signifies a riskier investment, it carries a higher rate of return for the investor. A drop to "AA" rating caused the state to pay a higher rate of interest on its' bonds and reduced the amount that the state could afford to borrow.

During the end of the Perpich administration and throughout the Carlson administration, the governors worked with the Department of Finance to establish a debt management policy to restore the state's AAA rating. Several strict policies were adopted to manage debt and keep limits on spending. Even though the policies were put into place in late 1979, it was not until 1997 that the AAA rating from all three rating agencies, Moody's, Fitch, and Standard and Poor, had been restored. The state had spent millions in higher debt costs over the seventeen year period due to the lower rating, but the debt management policies and a strong Minnesota economy helped the state once again attain the AAA rating.

Of all the debt management guidelines, the most commonly known policy is referred to as the "three percent guideline". This rule states that the appropriation for general fund debt service shall not exceed three percent of non-dedicated general fund revenues for a given biennium. Simply stated, the policy dictates that up to three percent of non-dedicated general fund revenues can be used to make payments on money the state borrows, giving the state a self imposed credit limit.

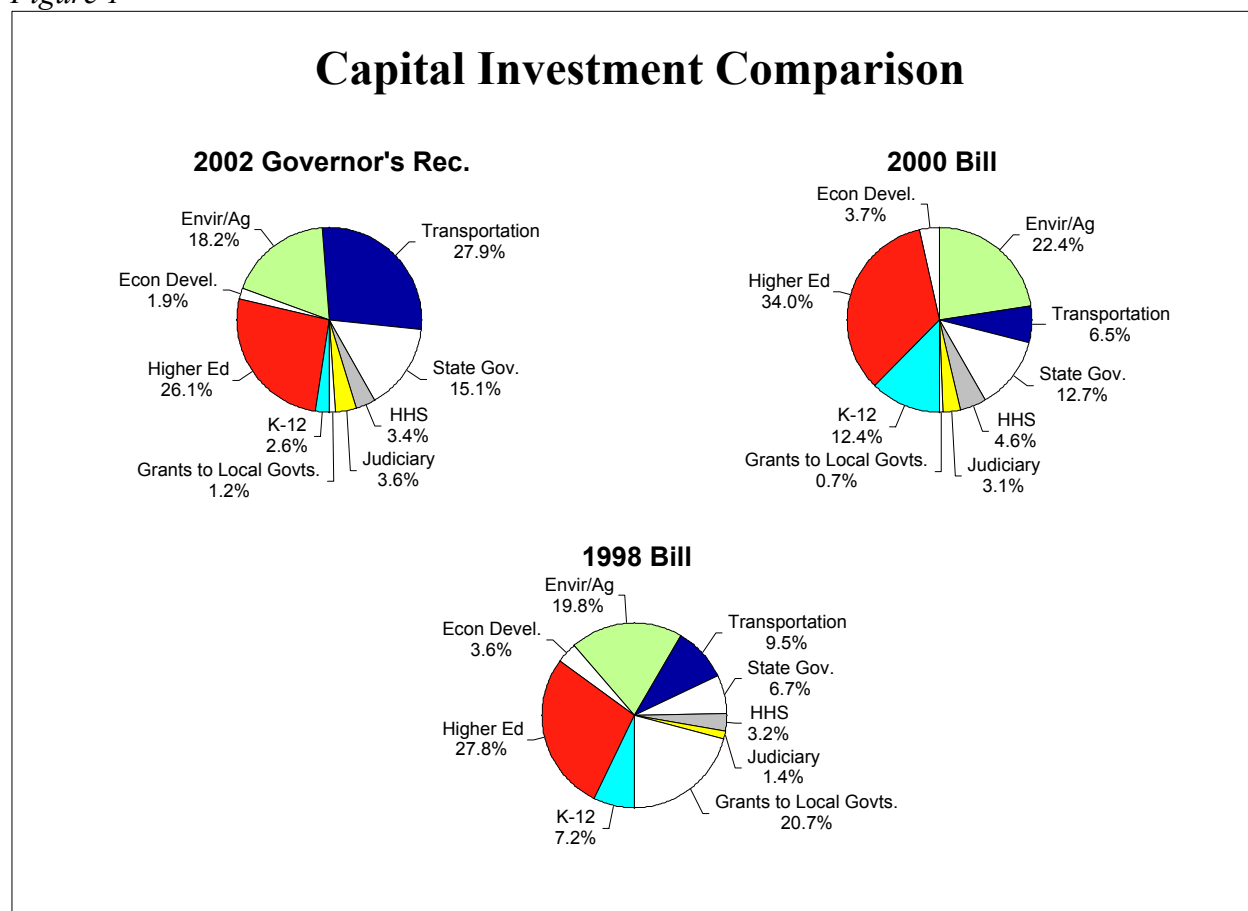
Minnesota currently has \$2.9 billion in outstanding general obligation bonds. The payments on these bonds currently consume 2.41% of general fund revenues. The Department of Finance then calculates the maximum capacity, or how much the state can borrow and prevent the payments on those bonds from consuming more than three percent of general fund revenues.

Given the current economic downturn, Minnesota's maximum debt capacity has shrunk from one year ago. Our state's debt capacity peaked at about \$1.2 billion per biennium, but now has decreased to \$1.09 billion per biennium. The \$746 million that the Governor proposes would bring state debt service up to 2.43 percent of general fund spending. Some have suggested the need for a capital investment bill approaching \$1 billion dollars as an economic stimulus. A \$1 billion dollar bill would still fall within our debt capacity, however, it would limit capacity for an "emergency" bonding bill next session to around \$90 million.

Another factor that could affect our debt capacity would be a downgrading of the state's AAA credit rating. Rating agencies look at several factors when assessing credit worthiness, such as maintaining structural balance into the future and budget reserve accounts. If the legislature solves the shortfall in the current biennium, but does not address the 2004-05 biennium, or does not address a plan to replenish the budget reserve account, these factors could affect the state's AAA rating. If the rating were downgraded by the rating agencies, the state would pay higher borrowing costs and have a lower debt capacity in the future.

The Governor's 2002 recommendations are compared with recent bills in Figure 1.

Figure 1



For further information on Capital Budget issues contact John Walz at 296-8236 or John.Walz@house.leg.state.mn.us

Family and Early Childhood Education

For Family and Early Childhood Education Finance for 2002, the Governor did not recommend capital funding to construct and/or rehabilitate Head Start and other early childhood facilities nor did the Governor recommend funding for public library accessibility grants.

The Department of Children, Families and Learning requested \$5 million for early childhood facilities grants. The agency's request could have provided funding for up to 14 to 18 additional capital projects. Since the inception of the early childhood learning facility grant program in 1992, approximately 64 capital projects have been funded statewide.

The Governor's failure to recommend capital funding for early childhood facilities may add pressure to the existing early childhood infrastructure. As operating budgets increase for early childhood programs such as Head Start, Early Childhood Family Education (ECFE) and Child Care Assistance, the client base expands as well as the need for facilities and space. In most cases, operating program budgets may not be used to finance facility construction or rehabilitation. If capital funding is not approved by the Legislature, as an alternative, early childhood facilities may be able to lease building space through a capital levy at the discretion of the school board.

The Department requested \$1 million for public library accessibility grants. This grant program was designed to assist local public libraries in making facilities accessible under the Americans with Disabilities Act. The program has provided assistance to 67 library buildings throughout the state. The state grants have been matched by about \$2.50 in local funds for every dollar of state funds.

For additional information on Family and Early Childhood Education finance issues contact Katherine Schill, House Fiscal Analyst, room 374, 296-5384 or Katherine.Schill@house.leg.state.mn.us.

K-12 Education

The Governor’s recommendations for capital projects in the K-12 education area total \$15.6 million. The largest component of the recommendations is a facilities grant to I.S.D. 38, Red Lake, for facilities improvements.

Table 2

Recommendations Summary (Sin thousands)	
Department of Children, Families & Learning	
Red Lake (38) Maximum Effort Capital Loan	12,400
<i>Subtotal:</i>	12,400
Center for Arts Education	
Performance Hall Catwalk	125
Asset Preservation - Center for Arts Education	643
Food Service Kitchen Renovation	570
Repair & Maintenance Building	326
<i>Subtotal:</i>	1,664
Minnesota State Academies	
Asset Preservation - Minnesota State Academies	1,500
<i>Subtotal</i>	1,500
K-12 Finance, Total All Projects	15,564

Department of Children, Families and Learning

- **Red Lake School Additions and Renovations** The Red Lake School District requested \$40.125 million for school facilities, the largest part of the request (\$35 million) for renovation at the Red Lake Middle and High Schools. The Governor recommended \$12.4 million for the district, for facilities planning (up to \$500,000) Elementary School classrooms (\$3.4 million) and Middle School and High School health and safety issues (\$8.5 million). The recommendation would not fund the District’s full request for the Middle and High Schools, their request for an expansion of their Early Childhood Center, or an expansion at Red Lake Elementary School.

Center for Arts Education

- **Performance Hall Catwalk** The Governor recommends fully funding the Center’s request for \$125,000 to construct a catwalk in the performance hall. During construction of the building that houses the Center’s new Performance Hall, provisions for a catwalk

for theatrical lighting, video projection and videotaping was inadvertently omitted from the design. Construction of the catwalk will allow a safe and efficient area for these purposes.

- **Asset Preservation** The Governor recommends fully funding the Center's request for \$643,000 for asset preservation. The Center's asset preservation list includes climate control and ceiling replacements in the east wing of the main building, asbestos removal from the east wing of the main building and the Gaia building, flooring replacements in areas where asbestos floor tile has been removed to reveal bare cement, and water pipe replacement.
- **Food Service Kitchen Renovation** The Governor recommends fully funding the Center's request for \$570,000 to upgrade food service and kitchen facilities, including removal and upgrading of kitchen equipment and renovation and remodeling of the kitchen and cafeteria.
- **Repair & Maintenance Building** The Governor recommends funding \$326,000 of the Center's request for \$1.8 million to demolish its existing repair and maintenance facilities and replace them with a new one. The Governor's recommendation would fund demolition of the existing facilities and predesign of the new facility.

Minnesota State Academies

- **Asset Preservation** The State Academies' requested \$2.0 million for asset preservation, with the Governor recommending \$1.5 million in funding. The State Academies' potential asset preservation projects include roof replacement, door replacement, fire protection, dust collection systems, asbestos removal and power upgrades. The highest priorities for the Academies are roof replacement of the Lauritsen Gym, a dust collection and air handling system in Mott Hall, MSAB Industrial Building fire protection, HVAC system work and dust collection system, an emergency generator for the MSAD Power Plant and demolition of West Cottage at MSAB.

Grants to Political Subdivisions

The Governor did not recommend funding any K-12 related grants to political subdivisions. Project requests from political subdivisions that were not funded and appear to be within the jurisdiction of the K-12 Finance Committee include: \$27.7 million from the West Metro Joint Powers Board to acquire land, predesign, design, construct, furnish and equip a voluntary integration magnet school in St. Louis Park; \$3.5 million from the Minneapolis Public Schools to renovate four buildings at Fort Snelling for use as a residential academy, and ; \$5.5 million from the City of Moorhead to design, construct, furnish and equip the Trollwood Arts Village in Moorhead.

For further information on K-12 issues, contact Greg Crowe at 296-7165 or Grge.Crowe@house.leg.state.mn.us

Higher Education

The Governor recommends a total of \$220,573,000 in bonding projects for higher education. This includes \$175,745,000 in state obligations and \$44,828,000 in user financing (debt service) to be paid by the University of Minnesota and the Minnesota State Colleges and Universities (MnSCU). For each system, the Governor recommends \$35,000,000 in Higher Education Asset Preservation and Repair (HEAPR) funding. HEAPR funds are not subject to the user financing debt service requirement. Specific projects recommended by the Governor are:

MnSCU

- \$9.9 million for the Normandale Community College science remodeling project, Phase 2. Phase 1, funded in the 2000 bonding bill, provided for construction of a new science building addition and is currently underway. Phase 2 will provide for extensive renovation of existing science facilities at Normandale.
- \$12.625 million for the Minneapolis Community and Technical College (MCTC) consolidation remodeling project phase 2 and 3. Phase 1, funded in the 2000 bonding bill provided for construction of a new addition to house library services. Phase 2 provides for remodeling of existing space library space and consolidating student services. MnSCU requested \$9 million for this portion of the project. Since the 2000 bonding bill was passed, continued planning has identified a phase 3 remodeling project that will allow co-location of MCTC and Metro State services on the MCTC campus without the construction of new academic space allowing Metro State to vacate leased space in downtown Minneapolis. The system had intended to request funding for phase 3 in 2004. However, the Governor recommends that both phase 2 and 3 be funded in 2002.
- \$17.442 million for the Metro State Library and Information Technology Center. This provides for construction of a library for Metro State University at the Dayton's Bluff campus. Planning for this facility was funded in 1998. \$2.5 million in additional, non-state, funds have been raised for this project by the Metro State Foundation.
- \$9.15 million to construct a classroom and technology building at Alexandria Technical College. Planning for this project was appropriated in the 2000 bonding bill.
- \$30 million to construct a new science building at Winona State University. Planning for this project was appropriated in the 2000 bonding bill. The new facility would house wet laboratories and classrooms. An anticipated 2004 request of \$9.772 million would remodel the existing science facility, Pasteur Hall, into dry labs, classroom and office space.
- \$18.955 million to construct a new science laboratory and auditorium addition to Hagen Hall at Minnesota State University, Moorhead. Planning for this project was funded in

the 2000 bonding bill. An anticipated request of \$10.022 million in 2004 would renovate the existing Hagen Hall.

- \$1.9 million to renovate six individual science labs. Labs at Minnesota State College – Southeast Technical – Winona, Minnesota West – Canby, Minneapolis Community and Technical College, Minnesota West – Worthington, Minnesota State College – Southeast Technical – Red Wing, and South Central Technical – Faribault will be renovated.

Significant projects and issues not addressed in the Governor's recommendations include: System wide land acquisition, including an opportunity to buy a block adjacent to Minneapolis Community and Technical College being vacated by the Billy Graham Foundation; Library construction at Southwest State University as well as reconstruction issues on that campus related to the total fire loss of the campus food service building; Renovation of Centennial Hall at St. Cloud State University; The third and final phase of athletic facility renovation at Minnesota State University – Mankato; Substantial renovation projects at both Hennepin Technical College campuses.

University of Minnesota

- \$3.4 million for construction of a new containment greenhouse and demolition of the old northwest greenhouses. The containment facility headhouse is under construction and was funded in the 2000 bonding bill. The Governor anticipates an additional \$14.3 million in 2004 to construct new greenhouses, completing the project as proposed in 2000.
- \$25.5 million for construction of a new lab sciences building on the Duluth campus. This appropriation is contingent on the University paying \$3.5 million in debt service and raising \$7.5 million in non-state funds.
- \$10 million for partial renewal of Nicholson Hall on the Twin Cities campus. The University requested \$24 million for total renovation of Nicholson into the new freshman studies center. The Governor cites concern over the impact of expanding freshman seminars on the University's operating budget in funding only basic renewal. The Governor's recommendations do not specify what basic renewal is or how it would fit into the University's academic plan.
- \$4 million for renovation of individual classrooms on the Twin Cities, Duluth, Morris and Crookston campuses.
- \$7.701 million to demolish Bede Hall and design, construct, and furnish a replacement facility to serve as the campus student center on the Crookston campus.

Significant project and issues not addressed in the Governor's recommendations include: New greenhouse construction; Total renovation of Jones Hall as part of the University's HEAPR request; Complete renovation of the old Mineral Resources Research Center;

Construction of a new Translational Research facility; Extensive renovation of the Social Science building at the Morris campus as well as fire sprinkling of student dormitories; Various projects at University Research and Outreach Centers; Planning funds for a new teaching and technology facility for the Institute of Technology; Planning funds for renovation of Northrop Auditorium; Fire damage to the Soil Sciences building on the St. Paul campus.

For further information on Higher Education Issues contact Doug Berg at 296-5346 or Doug.Berg@house.leg.state.mn.us

Health and Human Services

The Governor recommends a capital bonding package for Health and Human Services of \$113.2 million in FY2002, accounting for 13.4 percent of the total bonding package of \$844.6 million. Of this amount, \$84.6 million represents the cost of building a new laboratory and a parking ramp to be occupied by the Department of Health and Agriculture. The Veterans Homes Board and the Department of Human Services will spend the remaining balance of funding, primarily for maintenance and preservation activities at state-owned facilities.

Department of Health

The Governor recommends \$84.6 million in general obligations bonds for the construction of a new laboratory and parking ramp to be located on donated land at Lafayette Park in Saint Paul, adjacent to the Department of Human Services' current location.

In addition, the Governor proposes that the Department of Administration be allowed to enter into a lease-purchase agreement with the St. Paul Port Authority to construct two new office buildings. The new buildings include office space for the Department of Health and Department of Agriculture (\$88.0 million) to be located at Lafayette Park on land donated by the state and the Department of Human Services on the site of the former Capitol Square building in downtown Saint Paul (\$108.0 million). The St. Paul Port Authority will finance the project, estimated to cost \$196.0 million. DHS will incur higher lease costs upon entering the new building.

Department of Human Services

The Governor recommends issuing general obligation bonds in the amount of \$14.9 million in FY 2002 for the Department of Human Services. Excluding the Governor's proposal to construct a new building for the Department through a lease-purchase agreement with the St. Paul Port Authority, the Governor recommends funding the following DHS initiatives using general obligation funds:

- \$2.8 million for roof replacement projects at four regional treatment centers (RTCs) sites including Ah-gwah-ching, Anoka, Brainerd, and St. Peter;
- \$6.5 million for system-wide asset preservation projects at the state's regional treatment centers to maintain and preserve the integrity of these facilities. Projects include structural improvements, general maintenance, and safety hazard abatement;
- \$2.0 million to finance building and demolition costs at select RTC locations. Projects costs include professional services contracts, hazardous material abatement, demolition, and site restoration activities. DHS will attempt to convert surplus facilities to other ownership or lease arrangements; and

- \$3.6 million to convert a power plant at the St. Peter regional treatment center to low-pressure steam heat, resulting in long-term energy efficiencies at the facilities in terms of reduced staffing and lower energy costs.

Veterans Homes Board

The Governor recommends financing bonding projects at the Veterans Homes Board at a cost of \$13.7 million in FY2002. Specific initiatives include:

- \$8.6 million to fund the third phase of improvements at the Hasting Veterans Home. Projects at the home will involve infrastructure improvements, facility enhancements, and mechanical and electrical upgrades;
- \$2.3 million to replace the flat roof at the Silver Bay Veterans Home with a pitched, metal roof more suitable to the climate of northern Minnesota;
- \$2.0 million for agency-wide asset preservation activities, such as structural improvements and mechanical investments; and
- \$766,000 at the Luverne Veterans Home for extra space known as a “wander area” for individuals with Alzheimer’s disease and/or dementia. Higher operating costs of \$7,000 will be incurred after the new wing opens.

For further information on Health and Human Services finance issues contact Joe Flores at 296-5483 or Joe.Flores@house.leg.state.mn.us

Judiciary Finance

The Governor's 2002 criminal justice capital budget recommends spending of \$30.42 million in general obligation bonds for the Department of Corrections. The funding is for the following four projects:

Department of Corrections

- \$4.16 million to the Minnesota Correctional Facility in Lino Lakes to design and construct a new 416 bed housing unit. This is the number one priority for the Department.
- \$23.1 million for asset preservation projects throughout the system. This includes wall repair at Stillwater, emergency lighting at Lino and Stillwater and asbestos removal.
- \$3.07 million to the Minnesota Correctional Facility in Shakopee to remodel the Independent Living Center into a 48 bed general population living unit.
- \$906,000 to the Minnesota Correctional Facility in Stillwater for predesign/design funds for a new 150 bed segregation unit.

Implications

The Governor's bonding proposal did not include four projects that were in the Department of Corrections recommendations. The projects consisted of a new vocational building at Red Wing, a new activities building at Willow River, kitchen renovation at Fairbault, and a new vocational building at St. Cloud.

For additional information on Judiciary Finance issues contact Gary Karger at 296-4181 or gary.karger@house.leg.state.mn.us

Environment and Agriculture

The 2002 capital budget recommendations once again place a high priority on environmental and agricultural projects. Governor Ventura proposes \$153 million of environment and agriculture related spending. This recommendation comes after the legislature appropriated over \$75 million for environmental projects in the 2001 bonding bill.

Included in the recommendations is a \$31 million state park initiative. The dollars requested would fund upgrades throughout the state park system. Other projects fund regional trails, parks, landfill cleanup, animal habitat, and waste recycling facilities. Highlights of the governors proposal include;

Department of Natural Resources

- \$31 million State Park Initiative. This initiative consolidates many categories of state park request for buildings, recreation facilities, repair and maintenance and puts them into a major state park request.
- \$7 million for improving DNR field offices.
- \$2.9 million for statewide asset preservation.
- \$4.6 million for office facilities development of two DNR offices. \$3.1 million for a new office in Grand Marais and \$1.5 for a new office in Thief River Falls.
- \$2.5 million for reforestation of state forest due to harvestation, low tree stock or natural disaster.
- \$1.2 million for forest roads and bridges.
- \$1 million for Metro Greenways.
- \$3 million for RIM Critical Habitat.
- \$1.5 million for water access and fishing piers.
- \$2.5 million for state trail acquisition and development. This will fund projects on the Pioneer, Gitchi Gami, Shooting Star, Munger, Luce Line, and Douglas trails.
- \$15.5 million for flood hazard mitigation grants.
- \$1 million for Natural and Scenic areas.
- \$8 million for Metro Regional Parks.

Office of Environmental Assistance

- \$3 million for Capital Assistance Grants. These grants help local communities fund facilities that promote composting, reduce waste, promote recycling, and produce energy from incinerating waste.

Pollution Control Agency

The Governor recommends \$10 million landfill cleanup. In the 2001 bonding bill, over \$50 million of bonds previously appropriated for landfill cleanup were automatically cancelled by state statute chapter 16A.642. The legislature made a new appropriation of \$20 million for this purpose in 2001 and Governor Ventura's current request would supplement those dollars.

Water and Soil Resources Board

The Governor requests \$7 million for the RIM Reserve program. The program purchases conservation easements from landowners around the state's wetlands. The program seeks to improve water quality in lakes, rivers and streams as well as improve ground water quality.

Department of Trade and Economic Development

The Governor also recommends \$16 million for Public Facilities Authority matching funds and \$4 million for WIF (Wastewater Infrastructure) grants. Both programs support the construction of wastewater and drinking water infrastructure and are detailed in the Economic Development section.

Department of Agriculture

The Governor recommends \$15 million for the Rural Finance Authority loan program. The program provides low interest loans to farmers to purchase capital or to refinance current debt. The program is considered user financed, and debt service payments are made by the borrowers. The agency requested had \$20 million for the program.

Minnesota Zoological Gardens

Governor Ventura recommends \$7.18 million for new exhibits at the zoo. The dollars would fund the Asia Trail Gateway exhibit, one portion of a plan to renew and add to the zoo's exhibits. The total cost of the zoo's plan would be \$114 million for all new exhibits. The Governor's request would require the zoo to raise \$2.4 million in non-state match to complete the Asia Trail. Also recommended is \$3 million for general asset preservation.

For further information on Environment and Agriculture issues contact Katherine Schill at 296 5384, Katherine.Schill@house.leg.state.mn.us or John Walz at 296-8236, John.Walz@house.leg.state.mn.us

Jobs and Economic Development Finance

The Governor's 2002 Economic Development capital budget recommends spending \$42.04 million. Of this amount, the Governor recommends that \$41.961 million be funded with General Obligation (GO) bonds, and \$80,000 be funded from the General Fund.

Department of Commerce

- **Energy Investment Loan Program:** The Governor recommends \$6 million in GO bonding for the Energy Investment Loan Program. This program provides low-interest loans to schools and local governments for energy retrofit projects with the goal of making facilities more energy efficient. Participating schools and local governments pay for the debt service of these bonds with their loan repayments.

Housing Finance Agency

- **Transitional Housing:** The Governor recommends \$4.461 million in GO bonding for a housing project to be located on the VA Medical Center in Minneapolis that would serve veterans and single adults who are homeless or at risk of becoming homeless. The state commitment to this project is contingent upon an \$8.922 million local funding match.

Historical Society

- **Historic Sites Asset Preservation:** The Governor recommends \$1.5 million in GO Bonding for asset preservation and facility repair at multiple locations within the Society's Historic Sites Network.

Department of Trade & Economic Development

- **Redevelopment Grant Program:** The Governor recommends \$10 million in GO bonding for the Redevelopment Grant Program. The program provides grants to local development authorities to assist with costs incurred in redeveloping obsolete or abandoned industrial, residential and commercial properties.
- **State Matching Funds for EPA Capitalization Grants:** The Governor recommends \$16 million in GO bonding to provide state matching funds to access Federal EPA grants for the Water Pollution Control Revolving Fund and the Drinking Water Revolving Fund. The required state match is 1:5, or \$1 in state match for every \$5 in federal grant money.
- **Wastewater Infrastructure Fund:** The Governor recommends \$4 million in GO bonding for the Wastewater Infrastructure Fund. Also recommended is an \$80,000 general fund appropriation for PCA operating expenses related to the WIF program in the FY 2002-03 biennium.

Iron Range Resources & Rehabilitation Board

The Board submitted eight bonding requests with a total price tag of \$6.827 million. The Governor did not recommend any of the eight submitted projects.

Grants to Political Subdivisions

The Governor received more than 50 bonding project requests from local political subdivisions. The total dollar amount requested exceeded \$464 million. The Governor is recommending that none of the local bonding requests be funded by the Legislature. It can be expected that many of these local projects will be introduced as bills in the 2002 Session and be referred to the Jobs and Economic Development Finance Committee for consideration.

For more information on Jobs and Economic Development finance issues contact Ron Soderberg at 296-4162 or ron.soderberg@house.leg.state.mn.us

State Government

The Governor's recommendations for capital projects in the State Government area total \$322.3 million. Of this amount, \$119.1 million is from general obligation bonds, \$2.2 million is from the General Fund, \$5.05 million is from the Trunk Highway fund, and \$196 million is from lease-purchase financing.

Department of Administration

The Governor recommends \$311.7 million in projects, with \$109.1 million from general obligation bonds, \$196 million from lease-purchase financing, \$1.5 million from the General Fund, and \$5.05 million from the Trunk Highway fund. The agency had requested \$131 million in projects. Planning estimates are \$30.9 million for FY 2004 and \$22 million for FY 2006.

New State Buildings for Health, Agriculture and Human Services

The largest single item in the Governor's capital recommendations is a total of \$280.6 million for new laboratory, office and parking facilities for the departments of Agriculture, Health and Human Services. Only \$84.6 million of this amount would be financed through state-issued general obligation bonds; the remaining \$196 million would be financed through a new funding partnership with the Saint Paul Port Authority. The table below provides a further breakdown of the funding.

Proposed New State Buildings <i>(dollars in thousands)</i>			
Project	Project Cost	Financing Source	Location
Joint Labs / Parking Ramp	\$ 84.6 million	GO Bonds	Lafayette Park*
Agriculture / Health Offices	\$ 88 million	Port Authority	Lafayette Park
Human Services Offices / parking	<u>\$108 million</u>	Port Authority	Capitol Square Site
Total Project Costs: \$280.6 million			

**Land would be donated to the state by the Port Authority.*

Under this proposal, the Port Authority would partner with a private developer to design, finance and construct the buildings. The state would enter into a 25-year lease purchase agreement with the Port Authority, at the end of which the ownership of the buildings would transfer to the state.

Minnesota Statutes 16B.24 give the commissioner of administration the authority to enter into lease-purchase agreements, subject to several restrictions. Legislators may want to look closely at these requirements and seek clarification on several points:

- Current law prohibits the state from paying above-market lease rates. This proposal would require the agencies to pay market lease rates plus a premium necessary to cover the equity building towards eventual state ownership.
- Agency operating costs will increase due to the higher lease rates, but details on the increases have not yet been provided by the executive branch.

- It is unclear if the Port Authority is required to use the designer-selection process specified in MS 16B.33. Also, current law would require the portion of the project proposed for the Capitol Square lot to be subject to CAAP Board design requirements.
- A 25-year lease would require exemption from current statutory requirements of MS 16B.24, which restrict lease-purchase agreements to 20 years.
- Interest on bonds issued for the Port Authority will most likely be higher than the rate available for state general obligation bonds. This increased cost (built into the lease rates charged to the states) should be compared to the total cost if the state financed these projects itself.

Statewide CAPRA

The Governor recommends \$17 million in GO bond financing for the Capital Asset Preservation and Replacement Account (CAPRA). This recommendation is based on total agency requests of \$54.6 million. The agency had requested \$28 million, and placed the CAPRA request at the top of its priorities.

CAPRA is a statewide fund for projects that are generally too large or unexpected to be funded from agency repair and replacement budgets. Since the program was started in 1990, a total of \$58.9 million in both GO bonds and General Fund dollars has been appropriated for CAPRA projects.

The state has several different sources of funding for repair and maintenance, in addition to CAPRA. Asset preservation funds are included in the recommendations for the departments of Military Affairs, Natural Resources, and Human Services, and in the Higher Education Asset Preservation Account (HEAPR). In addition, a 1999 change in law allows the department to accumulate funds collected as rent to recover depreciation on buildings or construction projects funded through state bonds. These funds are deposited in a special revenue fund, and are available for asset preservation projects. This account is projected to collect \$6 million per year, beginning in FY 2002.

Sources of Funds Available for Maintenance & Repair of State Buildings		
	How are Funds Requested?	How are Funds Used?
Operating Funds	Requested by each agency in its operation budget.	Projects are typically under \$25,000. Usually used for the day-to-day maintenance projects.
CAPRA	Requested by Admin in a capital budget request. Based on information from all state agencies regarding their facility needs	Projects are typically in the range of \$25,000 to \$350,000. May be used to cover emergencies.
Asset Preservation	Requested by each agency in a capital budget request	Projects are typically over \$350,000
Facilities Repair & Replacement Account	Money collected by Administration as rent to recover the depreciation costs of buildings under Admin's custodial control	Used only for asset preservation projects on buildings from which money is collected

The Department of Administrations is planning changes in the way CAPRA is administered. Previously, most CAPRA funds were allocated to agencies on a square footage percentage basis. Now, Administration has organized all requests into four priority groups, with emergencies, code violations and life safety hazards receiving top priority for funding, regardless of the agency. The Governor is also recommending a sunset date of June 30, 2004 for any 2002 CAPRA appropriations.

Agency Relocation Funds

The Governor recommends \$1.5 million from the General Fund for costs associated with the relocation of the Bureau of Criminal Apprehension, temporary relocation of some tenants of the Veterans Service building during asbestos removal, and potential costs from the merger of the Department of Economic Security and the Department of Trade & Economic Development. An additional request of \$4.9 million for co-location of Department of Natural Resources and Pollution Control Agency staff was not recommended.

Department of Transportation (Mn-DOT) Exterior Repair

The Governor recommends \$5.046 million in FY 2002 for exterior repairs to the MN-DOT building on Constitution Avenue. Total estimated costs (over six years) for the repairs are \$14.8 million, to be financed with Trunk Highway bonds.

Damage to the support system for the exterior granite panels was discovered during the recent tuckpointing of the building. Shelf angles and retaining clips have significant rust, reducing the load bearing capacity of the angles. If the support system fails, it is possible that a granite panel could fall from the building. Each panel weighs approximately 1200 pounds.

Since 1992, the state has spent over \$44 million on repairs and renovation of the MN-DOT building, primarily for interior renovations, but also including funding for tuckpointing of the exterior.

Capitol Complex Electrical Upgrades

The Governor recommends \$3.2 million in general obligation bond financing for Phase 6 of the upgrades to the electrical infrastructure in the Capitol complex. These upgrades include:

- Updating the high-voltage electrical system that serves the entire Capitol complex. This update is already in process, and is intended to result in full redundancy and safer switching.
- Replacement of the emergency generator in the Capitol building.
- Upgrade of the electrical system in the Capitol, including replacement of obsolete distribution panels.

Previous appropriations for earlier phases of this project total \$10.25 million. Costs for these projects will eventually be recovered through rent charged to state agencies in the complex.

Governor's Residence Renovations

The Governor recommends \$4.2 million in GO bond financing for renovations and repairs to the Governor's residence on Summit Avenue in Saint Paul. Work would be primarily focused on interior renovations to the 2nd and 3rd floor residential areas. In addition to building a new private staircase, the repairs include upgrades to the fire alarm and sprinkler system, and

correction of several code violations. Exterior repairs would include repairs to the iron perimeter fencing and repaving of the plaza and courtyard.

Capital Area Architectural Planning Board (CAAP Board)

The Governor recommends \$3.3 million for two projects under the supervision of the CAAP Board.

- \$2.6 million in total for restorations within the Capitol. This includes \$1.9 million in bond financing for "Phase 1" of the reconstruction of historic open grille elevators. \$646,000 from the General Fund is recommended for plastering and repainting of public spaces in the first two floors of the Capitol.
- \$712,000 for new signs in the Capitol building and surrounding grounds.

The CAAP Board had requested an additional \$2.1 million for schematic design of the interior renovation of the Capitol, but the Governor did not recommend funds for this project.

Minnesota Amateur Sports Commission (MASC)

The Governor recommends \$4.25 million in GO bond financing for a sports event center to be constructed on the grounds of the National Sports Center in Blaine. The agency had requested a total \$5.25 million from state funds, but the Governor's recommendation requires that the remaining \$1 million be raised from non-state sources.

The sports event center would provide space for administrative operations of National Sports Center events and tournaments. The 2000 Legislature appropriated \$300,000 to the MASC for predesign of this facility.

The MASC is also seeking private funding to build a sports medicine clinic to be attached to the event center. The estimated cost of the medicine clinic is \$1 million. All lease revenues from the clinic, in addition to any sponsorship funds raised by events at the events center, would be used for operating costs of the facility.

Department of Military Affairs

The Governor recommends \$4.4 million in GO bond financing for three projects:

- \$2.5 million for asset preservation projects at armories and training facilities.
- \$300,000 for renovation of the kitchen at the Redwood Falls armory.
- \$1 million for facility life/safety repairs at facilities across the state.
- \$857,000 for Americans with Disabilities Act (ADA) requirements.

Planning estimates for these projects total \$4.3 million each year for FY 2004 and FY 2006.

For further information on State Government Finance issues contact Helen Robert at 296-4117 or Helen.Roberts@house.leg.state.mn.us

Transportation Finance

The Governor's recommendations for transportation projects make up a significant portion of his overall 2002 capital budget. The eight recommended projects require over \$245 million out of the Governor's \$845 million total capital investment package. Funding sources include both general obligation bonds and trunk highway fund cash.

Two major public transit investments make up the majority of the transportation proposals. The Northstar Corridor Commuter Rail project and the Northwest Metro Busway together total \$170 million in proposed state investment. The Northstar Corridor would require \$120 million dollars in GO bonds for a \$294 million project. The Department of Transportation hopes to secure a total of \$145 million in federal dollars, and \$27 in local fund to complete the project. (in conjunction with prior state appropriations for the corridor)

The project is unique in that general obligation bonds will be used to finance a project that will be on privately held property. Generally, the state can issue general obligation bonds for capital improvements that are publicly owned and provide for a public purpose. Article XI sec. 5 of the Constitution of the State of Minnesota provides certain exceptions to this rule. One such exception states that bonds may be used, "to improve and rehabilitate railroad rights-of-way and other rail facilities whether public or private, provided that bonds issued and unpaid shall not exceed \$200,000,000 par value."

The North West Metro Busway will be constructed in conjunction with a rebuild of County Road 81 in Hennepin County. The project is planned to relieve traffic congestion along the 25 mile corridor on highways I-94, I-494, Highway 100 and Highway 169. Ridership is estimated to be 15,000 riders daily in 2020.

The governor also recommends \$30 million for the Local Bridge Matching Funds program. The program provides assistance to local governments at replacing expensive aging and deficient bridges throughout the state. The money in the program leverages four dollars of federal money for every state dollar invested.

Other transportation related recommendations include;

Metropolitan Council

- \$10 million to the Met Council for a "Liveable Communities Grant Program", a program that would provide infrastructure dollars to metro area community developments that are transit friendly and promote smart growth.
- \$10 to the Met Council for replacement of the Snelling Bus Garage. The dollars would be added to a prior \$10 million appropriation and require \$12 million from the federal government to complete the project.

Department of Transportation

- \$9.5 million from the trunk highway fund for a Consolidated Operations Facility in Oakdale.
- \$14 million from the trunk highway fund for a new Mankato district headquarters building.
- \$2 million from the trunk highway fund for partial conversion of MNDOT's radio network to digital signal.

For further information on Transportation related issues contact John Walz at 296-8236 or John.Walz@house.leg.state.mn.us

Cancellations

The following projects have been identified for cancellation by the Governor. None of the projects listed would be automatically cancelled under State Statute Chapter 16A.642. Cancellation of any of the listed projects would require action by the legislature in the 2002 session.

Table 3

Governor's Recommended Cancellations (dollars in thousands)		
Project	Fund	Amount
1998 Capital Bill Chapter 404		
Itasca School to Work Technology Center	GF	\$2,000
Sand Dunes State Forest	GF	\$113
Hartley Nature Center	GF	\$1,500
Rolling Stock Grants	GF	\$439
Bald Eagle Center	GF	\$500
Peoples Inc	GF	\$375
Red Lake Education and Training Facility	GF	\$500
Treaty Site History Center	GF	\$400
Hermantown Sports Complex	GF	\$1,000
1999 Capital Bill Chapter 240		
Itasca County Infrastructure	GO	\$500
2000 Capital Bill Chapter 492		
Guthrie Theater	GF	\$3,000
GO Bonds		\$500
General Fund		\$9,827
Total All Funds		\$10,327

House Fiscal Analysis Department Staff Assignments

2002 Session

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Higher Education Finance	Doug Berg	296-5346	372
K-12 Education Finance	Greg Crowe	296-7165	378
Family & Early Childhood Finance	Katherine Schill	296-5384	374
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The House Fiscal Analysis Department Home Page is at:
<http://www.house.leg.state.mn.us/fiscal/fahome.ssi>

The Web page has fiscal staff publications from recent years as well as spreadsheets for the major finance bills for the past three sessions.