Fiscal Analysis Department

Minnesota House of Representatives

ISSUE BRIEF

Minnesota's Capital Budget
August 2008

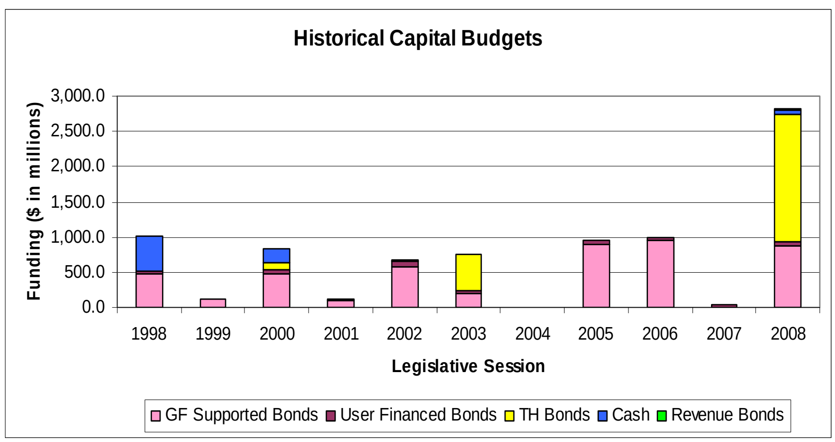
The 2008 Legislative Session brought the passage of a Capital Budget totaling $2.8 billion in new spending, including $882.5 million in general obligation bonds supported by the state's general fund. This Issue Brief discusses Minnesota's Capital Budget process and the 2008 Capital Budget specifically.

General Overview

Capital Budgets typically include funding for tangible, public assets, such as: purchasing land for public use; constructing or renovating publicly-owned buildings, such as schools, prisons, and convention centers; creating a state trail; and, constructing bridges. Operating and Supplemental Budgets, on the other hand, typically fund more programmatic-related activities (e.g. K-12 education).

Capital Budgets can be funded by using a variety of sources. To fund many of the projects the state acquires debt by selling general obligation bonds (G.O. bonds), which include general fund and trunk highway supported bonds. The state then pays back the principal and interest on the bonds with revenues generated by taxes. The Capital Budget can also include projects financed by revenue bonds or user-financed bonds. The Budget oftentimes includes cash appropriations from the general fund or other funds as well. The figure below depicts Minnesota's total capital budget from all funding sources from 1998 through 2008.

Historically, Capital Budgets tend to be larger in the even-numbered years and smaller in the odd-numbered years. There have been years, such as in 2004 and 2005, where the budget did not follow this trend, as shown in the figure to the right. The 2008 Capital Budget was unique as well; it included $1.8 billion in trunk highway bonds making the total Budget over 2.7 times larger than any previous Capital Budget.



Minnesota has a debt management policy to help ensure it can maintain or regain its Aaa/AAA bond rating; minimize the state's borrowing costs; and, stay within reasonable debt limits. Debt limits are determined based on cash flow relative to state debt, personal income of its residents relative to state debt, and timing for retiring debt. The most commonly referred to policy is known as the three-percent rule: the general fund appropriation for debt service (principal plus interest) cannot exceed 3.0 percent of non-dedicated general fund revenues.

With the passage of the 2008 Capital Budget, the ratio of the state's non-dedicated general fund revenues to debt service is estimated to be at 2.69 percent for the FY 2008-09 biennium and 2.93 percent for the FY 2010-11 biennium. To calculate these percentages and to ensure compliance with Minnesota's debt management policy over the next ten fiscal years, it is assumed that an additional $120 million in general fund supported bonding will be enacted during the 2009 legislative session and each odd-numbered year through 2017 and $885 million will be enacted during the 2010 legislative session and each even-numbered year through 2016.

2008 Capital Budget

In the 2008 Capital Budget, enacted bonding appropriations supported by the state's general fund totaled $882.5 million. The Capital Budget also included $14.4 million in general fund cash, $56.9 million in user-financed bonds, $25.0 million in revenue bonds, and $48.2 million in trunk highway fund cash. In addition, a transportation finance bill included $1.8 billion in bonds supported by the trunk highway fund, which were appropriated over 10 years.

The 2008 Capital Budget was unique both in its size and the way in which it became law. The Legislature approved $3.1 billion in projects. The Governor vetoed $2.1 billion of those projects, of which, $1.8 billion were in the form of trunk highway bonds in the transportation bill noted above. However, the Legislature overrode the Governor's veto of the transportation bill and also passed subsequent legislation for two additional vetoed projects. A summary of the approved, vetoed, and enacted projects by finance area follows.

2008 Capital Budget Appropriations, All Sources

(dollars in thousands)

Finance Area	Approved	Gov's Vetoes	Enacted
Agriculture, Rural Economies, and Veterans	$ 21,402	$ 0	$ 21,402
Higher Education and Work Force Development	$ 605,026	$ 83,185	$ 521,841
Environment and Natural Resources	$ 230,058	$ 30,733	$ 199,325
Health Care and Human Services	$ 9,505	$ 2,000	$ 7,505
Housing and Public Health	$ 1,000	$ 0	$ 1,000
K-12 Education	$22,895	$16,240	$6,655
Minnesota Heritage	$ 19,819	$ 8,125	$ 11,694
Public Safety	$45,135	$180	$ 44,955
State Government	$ 25,125	$ 0	$ 25,125
Transportation [1, 2]	$2,092,122	$1,943,750	$2,008,372
Previous Bonding Changed to General Fund	$ 5,282	$ 0	$ 5,282
Cancellations	($ 27,100)	$ 0	($ 27,100)
Bond Sale Expenses[1]	$ 2,858	$ 1,860	$ 2,858
Total	**$3,053,127**	**$2,086,073**	**$2,828,914**

1. The Governor vetoed Chapter 152 / HF 2800, but the Legislature overrode the veto. Bonding appropriations from this chapter are included in the approved, vetoed, and enacted columns.
2. $1.8 billion of the transportation appropriations are in the form of trunk highway bonds authorized over a 10-year period.

In addition to the appropriations outlined above, the University of Minnesota and Minnesota Housing Finance Agency received statutory appropriations from the general fund for upcoming fiscal years to cover debt service on bonds issued by each of the organizations. The University of Minnesota will receive up to $850,000 in FY 2010 and up to $3.7 million in FY 2011 to cover 75 percent of the financing for constructing four biomedical research facilities. The amount appropriated for constructing these buildings will increase in later years to a maximum of $15.5 million in FY 2015 and each year thereafter for up to 25 years. In addition to the statutory appropriations to the University of Minnesota, the MN Housing Finance Agency will receive an additional $2.4 million per year in FY 2010 and future fiscal years to pay the debt service on $30 million in MN Housing Finance Agency bonds. These bonds will be issued to fund loans and financing costs related to rehabbing permanent supportive housing.

For additional information on projects funded in the 2008 Capital Budget, visit the MN House of Representatives website at http://www.house.leg.state.mn.us/fiscal/moneymatters.htm, or contact Koryn Zewers at 651-296-4178 or koryn.zewers@house.mn.