

State of Minnesota Capital Budget Process

Presentation to the League of Minnesota Cities

March 6, 2025



mn MANAGEMENT
AND BUDGET

Capital Budget Outlook for the 2026 Process

- **Local Requests:** Significant increase in local unit of government requests comparing 2022 to 2024
- **February Forecast:** Includes GO bond assumptions each year
- **General Fund:** With limited resources, the bondability and scaling options for 2026 projects may be key, as General Fund spending on the capital budget could be limited to forecasted amounts
- **Major Bonding Years in the Past Decade:**



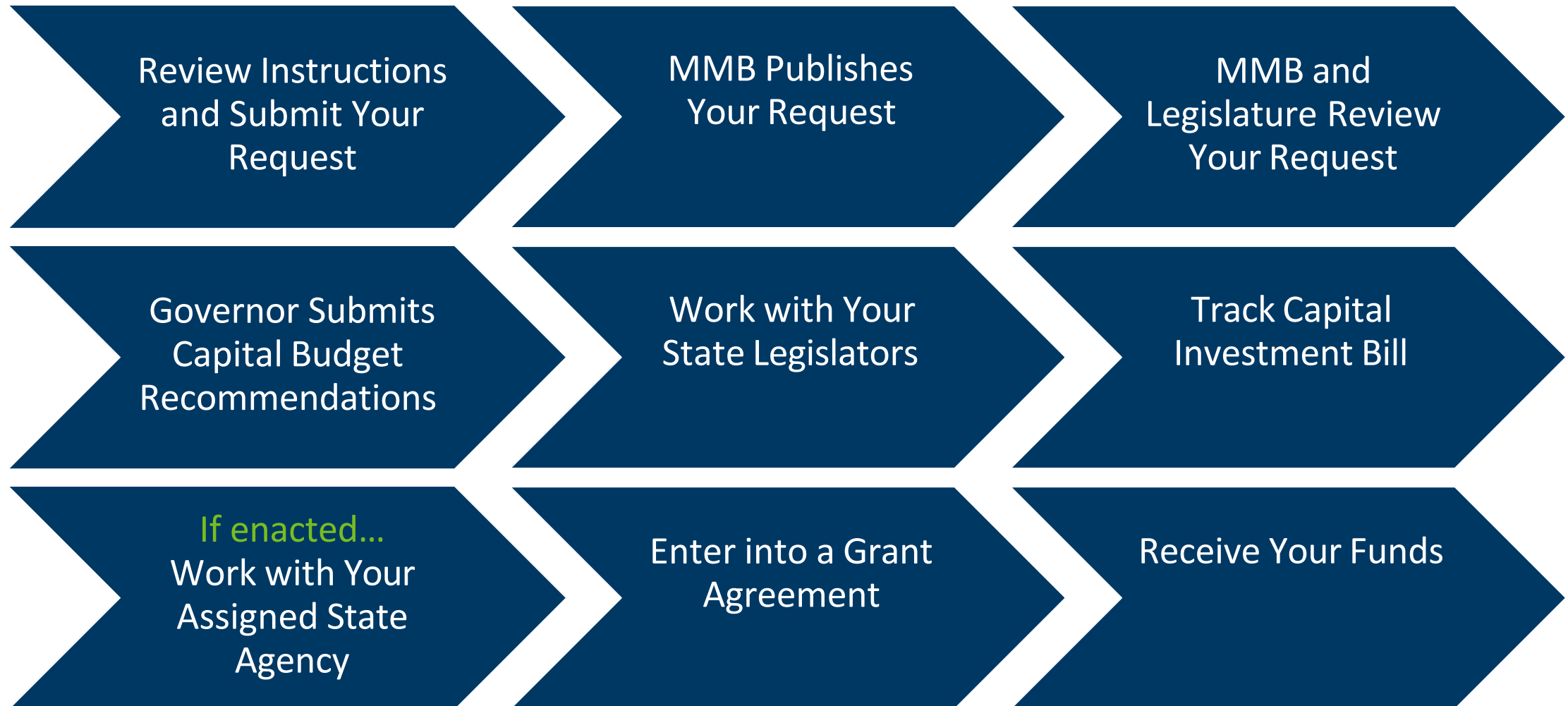
1. Capital Budget Process
2. When and How to Submit a Request
3. Resources
4. MMB's Evaluation of Requests
5. State General Obligation Bonds

Capital Budget Process



Capital Budget Process Overview

- The capital budget process involves multiple audiences with different roles.
 - MMB's role is to collect and present capital budget information.
- Requests are submitted by local governments and state agencies in odd-numbered calendar years for consideration in the following even-numbered year legislative session.
 - Requests for the 2026 legislative session are submitted in CY 2025.
 - The Governor's 2026 Recommendations will be published in January 2026.



When and How to Submit a Request



Timeline for 2026 Legislative Session Capital Budget Requests

- **End of April 2025:** MMB begins authorizing Capital Budget System (CBS) users
- **Early May 2025:** MMB publishes instructions and CBS opens for requests
- **Mid-June 2025:** Deadline for local government requests
- **July 15, 2025:** Requests published and submitted to Legislature
- **Mid-October 2025:** Deadline for local government request edits or updates
- **January 15, 2026:** All requests published and submitted to Legislature with the Governor's Recommendations

Note: Typically, site visits are conducted in the fall of odd-numbered calendar years, based on the information submitted in CBS by mid-June and published on July 15. Additionally, local governments are encouraged to submit projects by mid-June for publishing on July 15 to ensure full consideration (Minnesota Statutes 16A.86).

Capital Budget Requirements Highlights

Frequently Referenced Requirements:

- **Ownership:** A grantee must own the project for a term of at least 125% of the useful life of the project to qualify for GO bonds.
- **Public Purpose:** A grantee must maintain the project's program or purpose for 125% of the useful life of the capital project.
- **No Advance Payments:** Funds will be released only after a grant agreement is signed with the state's granting agency, and upon submittal of invoices showing the work has been done.
- **Full Funding:** All project funding must be received or in a legally binding commitment before state funds can be released for a capital project.
- **Matching Funds:** It is the standard for political subdivision projects to provide at least a 50% match of state funds from non-state sources. The legislature can waive or enforce this requirement through bill language.



Capital Budget Requirements Highlights

Frequently Referenced Requirements (continued):

- **Real Estate Declaration:** Grantees are required to have a declaration recorded against real estate that is purchased or improved with state capital budget funding. The state must get paid back first in the event of a sale before any lenders or other party can be paid back.
- **Reimbursement:** GO bonds cannot be used to reimburse expenses paid before the effective date of the capital investment bill.
- **Cancellation After Four Years:** The appropriation must be spent or encumbered, meaning officially committed through an executed grant agreement, within about four years (by the December 31 that is four years after the passage of the legislation granting the funds).
- **Predesign:** Grantees must prepare predesign documents on most capital projects in compliance with the current edition of the state's Predesign Guidelines. The Department of Administration Real Estate and Construction Services must review and approve a full set of predesign documents before design work or any other work on a project can begin. Best practice is to submit predesign documents before requesting capital budget funding.



MMB's Evaluation of Requests



MMB's Evaluation of All Capital Projects

- Is the project eligible for general obligation bond funding?
- Has all the required information been entered in CBS, including statutory requirements?
- Do Funding Sources equal Project Costs?
- What problem does the project address?
- Does the project serve a statewide or regionally-significant purpose?
- Can the project be completed in phases?

MMB's Evaluation of Local Government Capital Projects

- Does the project have the required 50% nonstate match?
- Could the project be funded through an existing statutory grant program (for example: the MnDOT Local Road Improvement Program, or PFA's Wastewater Infrastructure Funding 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 the local government requesting the funds?
- Is there a resolution of support uploaded in CBS from the jurisdiction's governing body that shows (1) the governing body supports the project, (2) ranks projects if more than one, and (3) acknowledges the local resources that are being contributed to the project.

State General Obligation Bonds



Minnesota's **capital budget** is primarily funded by issuing state general obligation (GO) bonds.



What Projects Are Eligible For State GO 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: ≥ 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

NEW INFORMATION SLIDE 5.13.2025

Governor Walz's capital budget will continue to focus resources on the most critical projects and strategic investments across the state and give local leaders tools they need to succeed, with particular focus on projects that:

- Address life and safety issues
- Preserve existing infrastructure and repair existing facilities before starting new projects
- Are proposed following community engagement
- Aid in making Minnesota the best state in the country for kids to grow up
- Address and undo historical and systemic disparities and inequities, including those based on race, gender, veterans' status, geography, and economic status
- Provide at least a 50% local match
- Have a local resolution of support from the governing body
- Integrate climate preparedness and/or clean energy

Other Input from Our State Senator and State Representative

NEW INFORMATION SLIDE 5.13.2025

- 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 (rank in order of priority if more than 1 project)

NEW INFORMATION SLIDE 5.13.2025

Key Dates Dates Deadline

June 13, 2025 All local unit of government requests are due to MMB through CBS.

***June 3rd Council Meeting action (need more time than next Tuesday to prepare information for council action on May 20th) ***

July 15, 2025 MMB submits all local unit of government requests and preliminary state agency requests to the Legislature.

October 17, 2025 Final edits to local government requests are due to MMB.

January 15, 2026 Governor Walz submits his 2026 Capital Budget Recommendations to the

NEW INFORMATION SLIDE 5.13.2025

Potential Projects In Capital Improvement Plan (CIP) For Consideration:

- I. Water Treatment Plant.
- II. NCRC Building.
- III. Bridge Square (current request from 2024 authorization)
- IV. Other from CIP current or otherwise?
- V. No Requests.

NEW INFORMATION SLIDE 5.13.2025

Water Plant Option

February 2025 Updated Cost Estimate (including other added cost reductions):

Estimated Water Treatment Plant Costs by Option and Year		
Treatment Type	2027	2028
Gravity Filtration Only	\$53M - \$57M	\$56M - \$63M
Gravity Filtration, Office/Garage	\$62M - \$70M	\$65M - \$77M
Gravity Filtration, RO and Office/Garage	\$68M - \$77M	\$71M - \$85M

A. Request \$57M Total Cost Gravity Filtration: \$28.5M State Request/\$28.5M Local Match

B. \$70M Total Project : \$35M State Bond, \$35M Local Match

Would propose to include a participatory process on redesign with council/community or other input with phases. IF costs came lower could adjust down the bonding request (October or after).

NEW INFORMATION SLIDE 5.13.2025

NCRC Project = Estimated \$5M Total: \$2.5M State Bond with Local Funded by City and Partners (via lease)

Planned improvements include security and technology upgrades, new flooring and paint, renovated public restrooms, and replacement of the boiler, chiller, and air handling units. Locker room and pool updates are also included. With additional funding, improvements to organization-specific areas—such as the food shelf and senior center—can be made.

The NCRC houses several key government and non-profit service providers, including Healthy Community Initiative (HCI), Community Action Center (CAC), FiftyNorth, Rice County United Way, Rice County satellite offices, WorkForce Development, and a satellite location of the Northfield Public Library.

These organizations deliver essential services to Northfield and surrounding communities. Upgrading the NCRC will enhance the efficiency, accessibility, and long-term sustainability of these services, maximizing public benefit and supporting community well-being.

NEW INFORMATION SLIDE 5.13.2025

Bridge Square = Estimated \$7.5M Total: \$3.75M State Bond. City \$3.75M Match

- Completes Road Infrastructure Improvements and Park Improvements.
- Certificate of Appropriateness Approved by HPC
- Construction Documents Near Final Design

NEW INFORMATION SLIDE 5.13.2025

Other or None?