



ISSUE BRIEF

**Minnesota's Capital Budget
 December 2007**

The November 2007 forecast assumes a 2008 Capital Budget of \$645 million in general obligation bonds. Initial requests for funding total \$3.21 billion. This Issue Brief discusses Minnesota's Capital Budget process and the 2008 Capital Budget specifically.

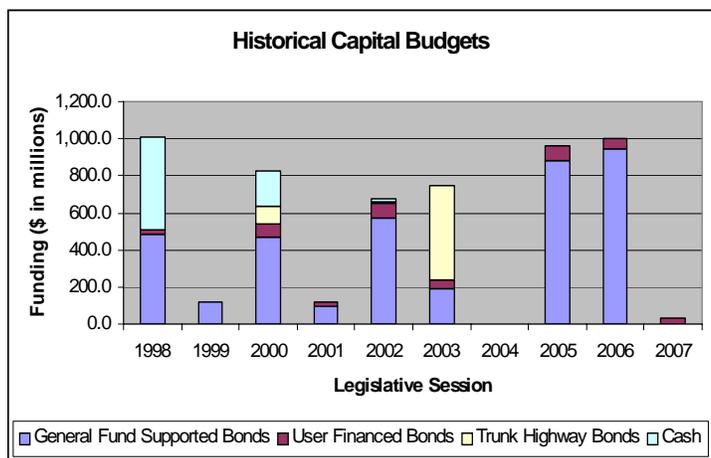
Overview

During the 2008 session, the Legislature will focus on a Capital Budget bill. 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 state trails; 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 from a variety of funding 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 fund supported bonds. The state pays the principal and interest back from selling these bonds through revenues generated by taxes. The Capital Budget can also include projects financed specifically by those who use the resource through user-financed bonds, and the budget oftentimes includes cash appropriations from the general fund or other funds. The figure below depicts Minnesota's total capital budget from all funding sources from 1998 to present.

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 economic forecast issued by the Minnesota Department of Finance in November assumes a 2008 Capital Budget of \$645 million in projects funded with general fund supported



bonds, and a 2009 Capital Budget with \$120 million in bonding. These amounts are determined based on the 10-year average of bonding in even and odd numbered years. Use of other financing options, such as cash, varies greatly by year based on a variety of economic factors and needs.

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. The guidelines relate to the amount of debt Minnesota acquires and the retirement of debt. The most commonly referenced policy is a three percent general fund to debt service ratio in which the general fund appropriation for debt service cannot exceed three percent of non-dedicated general fund revenues. Three additional policies relate various forms of debt to the state's personal income, and two policies outline the rate at which debt should be retired. Based on the assumptions in the November 2007 forecast and the state's debt management policy, the maximum debt capacity in even-numbered year Capital Budgets is \$965 million through 2016. The maximum debt capacity is \$120 million in odd-numbered year Capital Budgets through 2017.

Major Deadlines

State laws outline a number of major deadlines the Legislature and Executive branches of government must comply with to develop the state's 2008 Capital Budget. These deadlines include:

- June 2007: Initial requests from state agencies and other units of government are due to the MN Department of Finance for review.
- July 2007: MN Department of Finance presents a report to the State Legislature containing all of the initial requests.
- October 2007: Requests from state agencies and other units of government are finalized with the MN Department of Finance.
- December 2007: New economic forecast is issued, which has a potential impact on how much the State can spend in the Capital Budget.
- January 2008: The Governor submits his recommendations to the State Legislature.
- April - May 2008: Legislative Session ends, and a Capital Budget is presented to the Governor for signature.

Summary of Initial Requests

As noted above, the MN Department of Finance presented the State Legislature with a summary of the initial funding requests from state and local agencies in July and updated the information in October. Requests total \$3.21 billion and vary greatly in scope and amount requested. Some of the major areas requesting funds include: \$1.2 billion for grants to political subdivisions;

\$633.6 million for higher education institutions; \$384.3 for transportation and transit; and, \$300.7 million for projects related to natural resources. A summary of the requests by geographic area is outlined below:

Seven-County Metropolitan Area:	\$1.3 billion
Multi-Regional Projects:	\$989.7 million
Northeast Minnesota:	\$355.4 million
Northwest Minnesota:	\$254.7 million
Southeast Minnesota:	\$138.2 million
Central Minnesota:	\$100.5 million
Southwest Minnesota:	\$90.3 million

This summer and fall, House members toured each of the areas listed above to view some of the projects seeking state funds. Additional tours of the metropolitan area will occur in January. These tours will assist House members with determining which projects should receive funds in the 2008 Capital Budget.

If you have any further questions on Capital Budget related issues, please contact Koryn Zewers at 651-296-4178 or koryn.zewers@house.mn.