



Agencies' Use of Capital Appropriations for Staff Costs Attributable to Capital Programs or Projects

Report to the Legislature

January 14, 2011

*As required by
Minn. Stat. Sec. 16A.501(b)*

ESTIMATED COSTS OF PREPARING THIS REPORT

The cost information reported below is the estimated cost of preparing this report document. Special funding was not appropriated for the costs of preparing this report.

in accordance with Minn. Stat. Sec. 3.197, the estimated cost incurred by Minnesota Management & Budget in preparing this report is less than \$1,000.

BACKGROUND

During 2009, MMB decided to formalize a policy regarding agencies' use of general obligation bond appropriations to pay for staff costs incurred in delivering a capital project or program. It decided to do so after discovering that some agencies were charging staff costs without specific legislative authorization to do so and were doing so in an inconsistent manner. Some agencies were charging staff costs based on a flat percentage of project costs and others were tracking actual employee hours spent.

On October 20, 2009, MMB issued its "Policy Regarding Use of General Obligation Bond Proceeds to Fund Staff Costs", a copy of which is attached as **Exhibit B** to this report. In that policy, MMB stated that its policy would apply to bonding appropriations authorized in the 2010 legislative session and to earlier bonding appropriations that contained specific statutory authority to use G.O. bond proceeds to pay costs of staff directly involved in delivering a capital project or program.

MMB's goal in implementing the new policy was to establish uniformity across agencies in the procedures used by agencies to charge staff costs to bonding appropriations and to establish MMB oversight of the process. The policy requires each agency desiring to charge staff costs to bonding appropriations to submit a plan to MMB for its approval. The plan must indicate how the agency intends to track staff costs charged to each bonding appropriation, and such tracking must be by employee, by project or program and by hour spent. Each agency must report staff costs charged to bonding appropriations to its MMB executive budget officer on a quarterly basis and certify that such time is properly capitalizable as a cost of the project or program in accordance with applicable accounting principles.

Section 1 of the 2010 bonding bill (Laws 2010, ch. 189) specifically authorized agencies to use capital appropriations to pay staff costs directly attributable to the capital program or project in accordance with accounting policies adopted by the Commissioner of MMB. The bonding bill also imposed a new reporting requirement for MMB as discussed below.

THE REPORTING REQUIREMENT

Section 28 of the 2010 bonding bill (codified as Minn. Stat. Sec. 16A.501(b)) requires MMB to report to the Legislature by January 15 of each year as to the amount and percentage of each agency's capital appropriation that is used to pay for the costs of staff directly attributable to capital programs or projects funded with state general obligation bond proceeds. The report must also address agency compliance with policies of the Commissioner of MMB as to use of general obligation bond proceeds to pay staff costs and any changes to the Commissioner's policies.

AGENCY REPORTING AND COMPLIANCE

The following ten agencies have submitted plans to MMB to charge staff costs to one or more bonding appropriations and such plans were approved by MMB: Administration, Board of Water and Soil Resources, Department of Natural Resources, Minnesota Historical Society, Metropolitan Council, Pollution Control Agency, Department of Transportation, University of Minnesota, Minnesota State Colleges and Universities and the Minnesota Zoo.

To date, the following seven agencies have submitted one or more quarterly reports of staff costs charged to bonding appropriations: Administration, Department of Natural Resources, Minnesota Historical Society, Pollution Control Agency, Department of Transportation, University of Minnesota, and Minnesota State Colleges and Universities. The data submitted by these agencies were compiled by MMB and appear on the spreadsheet attached as **Exhibit A** to this report.

The following three agencies indicated that they did not intend to charge staff costs to bonding appropriations and thus did not submit a plan for charging staff costs to MMB: Department of Corrections, Military Affairs and Department of Public Safety. For Corrections, this may be the case because its capital appropriations are administered by the Department of Administration, which is also true for capital appropriations to DPS for state-owned building projects (not including appropriations to DPS for grants to local governments).

The following agencies who received capital appropriations in the 2010 bonding bill neither submitted a plan to MMB nor did they indicate that they did not intend to charge staff costs to bonding appropriations: Amateur Sports, Department of Employment and Economic Development, Department of Human Services, Minnesota State Academies, Perpich Center for Arts Education, Public Facilities Authority and Veterans Affairs. In the case of DHS, the State Academies, Perpich Center and Veterans Affairs, their capital appropriations are administered by the Department of Administration and thus they may not have submitted plans for that reason.

With respect to MMB's assessment of the degree of agency compliance with the Commissioner of MMB's policy regarding staff costs, we believe that the agencies which submitted plans to us worked diligently with us to incorporate requested changes to their plans and make sure they understood the new process. Our policy does not require agencies to affirmatively inform MMB if they do not intend to charge staff costs to capital appropriations, and thus no conclusion as to compliance can be drawn for the agencies who did not submit plans, unless they specifically stated they did not intend to charge staff costs as discussed above. Similarly, the three agencies who submitted plans but have not submitted quarterly reports may have decided not to charge staff costs to bonding appropriations.

Minn. Stat. Sec. 16A.501(b) requires MMB to discuss any changes to its policies regarding the charging of staff costs to bonding appropriations. MMB has not changed the policy adopted on October 20, 2009 and discussed above.

Agency Contact:

Gay Greiter, Capital Budget Coordinator
Minnesota Management & Budget
658 Cedar Street
400 Centennial Office Building
St. Paul, MN 55155
(651) 201-8049
gay.greiter@state.mn.us

REPORT TO LEGISLATURE (M.S. §16A.501(b))											
AMOUNT OF CAPITAL APPROPRIATIONS USED TO PAY AGENCY STAFF COSTS											
January 14, 2011											
Agency	Legal Citation	Fiscal Year	Fund	Approp. Org.	Approp. Unit	Appropriation Name	Amount of Original Approp.	Amount Previously Spent for Staff Costs	Amount Currently Reported as Spent for Staff Costs	Total	% of Approp.
Administration	06 258 00 012 002	2006	500	FACL	36E	ADMN CAPITAL ASSET PRESERVTN	\$ 4,000,000	\$ -	\$ 10,800.29	\$ 10,800.29	0%
	08 365 00 003 000	2008	500	FACL	37V	ADMIN - CAPRA	3,400,000	-	16,833.72	16,833.72	0%
	08 152 02 005 000	2008	272	FACL	37B	DOT BUILDING EXTERIOR REPAIR	18,197,000	-	8,724.50	8,724.50	0%
	08 179 00 012 002	2008	500	FACL	37C	PROPERTY ACQUISITION - 639 JACK	2,325,000	-	4,611.39	4,611.39	0%
	08 179 00 012 003	2008	500	FACL	37J	ADM - CAP BLDG RESTORATION	13,400,000	-	42,904.05	42,904.05	0%
	08 179 00 018 003	2008	500	FACL	37L	DHS - REDEVELOP/REUSE/DEMO	3,400,000	-	9,807.91	9,807.91	0%
	10 189 00 005 002	2010	500	GCSV	38C	MSA-ASSET PRESERVATION	2,000,000	-	1,173.32	1,173.32	0%
	10 189 00 005 003	2010	500	GCSV	38D	MSA-IND LIVING HOUSING	500,000	-	3,169.07	3,169.07	1%
	10 189 00 006 002	2010	500	GCSV	38E	PCAE-ALPHA BLDG DEMOLITION	755,000	-	801.97	801.97	0%
	10 189 00 006 003	2010	500	GCSV	38F	PCAE-DELTA DORM WINDOWS	489,000	-	814.82	814.82	0%
	10 189 00 011 002	2010	500	GCSV	38H	ADMIN - CAPRA	2,000,000	-	-	-	0%
	10 189 00 011 003	2010	500	GCSV	38I	ADMIN - ASSET PRESERVATION	6,750,000	-	1,067.55	1,067.55	0%
	10 189 00 011 003	2010	500	GCSV	38J	ADMIN - CAPITAL CAMPUS SEC	1,250,000	-	1,201.60	1,201.60	0%
	10 189 00 011 003	2010	500	GCSV	38K	ADM-GOV RESIDENCE PREDESIGN	75,000	-	-	-	0%
	10 189 00 014 003	2010	500	GCSV	38M	CON-DPS-EMER OPS CENTER	2,250,000	-	-	-	0%
	10 189 00 018 002	2010	500	GCSV	38N	DHS - ASSET PRESERVATION	2,000,000	-	-	-	0%
	10 189 00 018 005	2010	500	GCSV	38P	DHS-MOOSE LAKE SEX OFF FAC	47,500,000	-	5,334.19	5,334.19	0%
	10 189 00 019 002	2010	500	GCSV	38Q	VA-ASSET PRESERVATION	4,000,000	-	2,002.34	2,002.34	0%
	10 189 00 019 004	2010	500	GCSV	38S	VA-MPLS VETS HOME	9,450,000	-	2,004.29	2,004.29	0%
	10 189 00 020 002	2010	500	GCSV	38T	DOC-ASSET PRESERVATION	8,000,000	-	5,018.23	5,018.23	0%
	10 189 00 020 004(a)	2010	500	GCSV	38V	MCF-OAK-PK-INTRUSION DETSYS	3,529,000	-	1,141.03	1,141.03	0%
	10 189 00 020 004(b)	2010	500	GCSV	38W	MCF-OAK PK SEC SYS UPGRADE	6,500,000	-	367.17	367.17	0%
MN Historical Society	10 189 00 024 002	2010	500	0000	SHS	10 HISTORIC SITES ASSET PRES	3,400,000	-	-	-	0%
Pollution Control Agency	05 020 01 023 003	2005	500	0000	X13	WIF ADMIN	600,000	281,225.73	54,594.93	335,820.66	56% *
Transportation	08 152 02 003 003	2008	272	0000	12W	GREAT RIVER ROAD	4,299,000	-	48,238.19	48,238.19	1%
	09 093 01 011 005	2009	500	0000	B02	INTERCITY PASSENGER RAIL	26,000,000	-	794.09	794.09	0%
Natural Resources	10 189 00 007 003	2010	506	0000	282	FLOOD HAZARD MIT GRANTS L10	63,500,000	-	6,161.13	6,161.13	0%
	10 189 00 007 004	2010	500	0000	283	GROUNDWATER OBSERV WELLS L10	1,000,000	-	4,578.63	4,578.63	0%
	10 189 00 007 005	2010	500	0000	284	STATE DAM RENOVATION L10	4,000,000	-	668.93	668.93	0%
	10 189 00 007 012	2010	506	0000	357	SHADE TREE PROG GRANTS L10	3,000,000	-	-	-	0%
	08 179 00 007 025	2008	500	0000	470	ST PARK PRAIRIE RESTORE L08	290,000	-	64,814.08	64,814.08	22%

Policy Regarding Use of General Obligation Bond Proceeds to Fund Staff Costs
Minnesota Management and Budget
October 20, 2009

Objective:

To account for the use of general obligation bond proceeds that agencies use to fund the capitalizable costs of staff directly involved in delivering a capital project. State agencies are strongly encouraged to charge the time of state employees working on capital projects to non-bond funding sources because of the undesirable practice of amortizing such salary costs over the 20 year life of state general obligation bonds.

Definitions:

Capitalizable costs of staff means the portion of the compensation of employees working directly on a capital project that is directly related to that capital project based on the compensation of each such employee (including employee benefits) and payroll taxes paid by the agency for such employee and the amount of time actually spent by such employee on the project that is properly capitalized as a cost of a project under generally accepted accounting principles and federal tax law. Agencies may use bond proceeds only for out-of-pocket capital costs and not for depreciation, amortization, overhead, general administration, or similar costs.

Capital project means the acquisition or betterment of public land and buildings and other public improvements, the costs of which are properly capitalized under generally accepted accounting principles.

Policy:

1. Agencies intending to use general obligation bond proceeds to fund the capitalizable costs of staff directly involved in delivering a capital project authorized in a bonding bill must notify Minnesota Management and Budget (MMB) of their intention prior to expending any bond appropriations for that purpose.
2. Staff time expended on capital projects are required to be tracked by each individual project in a form and manner acceptable to MMB. Agencies should submit a memorandum to their Executive Budget Officer (EBO) outlining their proposed process for tracking and reporting agency staff time directly expended on completing authorized capital projects for review and approval by MMB.

Criteria for Reporting Format:

Reporting of staff time spent on capital projects funded from general obligation bond proceeds must reflect the following criteria:

1. Time must be tracked by each project individually.
2. Each individual recording time must be identified.
3. Time must be tracked on a daily basis.

Policy Implementation:

Each agency must submit a report detailing the time expended on implementing capital projects to their respective EBO on a quarterly basis. Each agency must certify that such time is properly capitalizable as a

cost of the appropriate project in accordance with applicable accounting principles. EBOs shall review the reports and notify the Capital Projects Coordinator if any issues are noted. The Capital Projects Coordinator will work with the agency in question to resolve any issues that are identified. If the agency and the Capital Projects Coordinator are unable to resolve any issues, the Assistant Commissioner will make a final determination, in consultation with bond counsel as needed, as to the resolution of any issues.

Upon completion of each capital project undertaken, the agency will provide written notification to its EBO and no further reimbursement for any capitalizable costs may be made.

Effective Date of Policy:

This policy will be effective with bonding appropriations authorized in the 2010 legislative session. Agencies that already have explicit statutory authority for prior bond authorizations to use general obligation bond proceeds to fund the costs of staff directly involved in delivering a capital project must still submit a plan to track those costs to MMB for its review and approval prior to using any general obligation bond funds for such purposes.

Contacts:

Gay Greiter, Capital Projects Coordinator, (651) 201-8049

Mike Roelofs, Budget Team Leader, (651) 201-8023