This paper summarizes the capital budget enacted by the Legislature and Governor Tim Walz in the 2019 legislative session. Part One provides an overview of the capital budget. Part Two provides detailed project summaries organized according to the jurisdictions of the House of Representatives’ fiscal committees.

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Detailed Budget

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Fiscal Analysis Department
Minnesota House of Representatives
Capital Budget Overview

The legislature authorized a net total of $64.4 million in borrowing in the capital budget for 2019. The net total is the combination of $162.9 million in borrowing authorized, and $98.5 million in cancellations of previously authorized but not issued borrowing. To support this borrowing and prior bond authorizations, the state is estimated to spend $1.472 billion out of the General Fund over the fiscal year (FY) 2020-2021 biennium, with $272.9 million for appropriations bond debt service, and $1.199 billion for general obligation (GO) bonding debt service.

The capital authorizations for the 2019 sessions came in two bills. The first was signed into law as Chapter 2 on March 5th, and cancelled $98 million in Environmental Resources Trust Fund appropriations bonds, while also authorizing $102 million in GO bonding for the same projects that were being cancelled, but with additional money for a landfill project in Anoka County. The other capital budget bill enacted was 2019 First Special Session Laws Chapter 13, signed into law May 28, included $60 million in Minnesota Housing Finance Agency appropriations bonds, and a $550,000 GO cancellation and re-authorization for a theater in Minneapolis.

<table>
<thead>
<tr>
<th>Capital Investment Spending Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Amounts in Thousands (000s), figures may not add due to rounding</td>
</tr>
</tbody>
</table>

### Spending by Legislative Subject Area

<table>
<thead>
<tr>
<th>Subject Area</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment/Parks &amp; Trails/Related Grants</td>
<td>43,300</td>
</tr>
<tr>
<td>Housing</td>
<td>60,000</td>
</tr>
<tr>
<td>Water Infrastructure Grants (PFA)</td>
<td>59,000</td>
</tr>
<tr>
<td>State Government and Arts Grant</td>
<td>652</td>
</tr>
<tr>
<td>Environmental Fund (LCCMR) Cancellation</td>
<td>-98,000</td>
</tr>
<tr>
<td>GO Cancellations</td>
<td>-550</td>
</tr>
<tr>
<td><strong>Net Total Authorized</strong></td>
<td><strong>64,402</strong></td>
</tr>
</tbody>
</table>

### Spending by Fund Types

<table>
<thead>
<tr>
<th>Fund Types</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonds (GO) (TF) (MAX)</td>
<td>102,952</td>
</tr>
<tr>
<td>Appropriations Bonds – General Fund Backed</td>
<td>60,000</td>
</tr>
<tr>
<td>GO Cancellations</td>
<td>-550</td>
</tr>
<tr>
<td>Environmental Fund (LCCMR)</td>
<td>-98,000</td>
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<td><strong>Net Total Authorized</strong></td>
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</table>

In addition to Chapter 2 and First Special Session Laws Chapter 13, the tax bill, First Special Session Laws Chapter 6, Article 10, contained conditional authorization for appropriations bonds for the Duluth Regional Exchange District.

**Types of State Debt and History of Bond Authorizations**

State debt authorizations have varied in size and composition over the past decade. GO debt requires a three-fifths majority of both the House and the Senate to authorize, typically receives the most favorable interest rates of state debt when sold on the bond market, and is supported by the state General Fund. User Financing backed bonding are GO bonds that are paid for not by the General Fund but by another revenue stream. In this case user financing is paid by the Minnesota
State College and University System. However if the other revenue stream did not make the payments, the bonds are ultimately backed up by the state General Fund. GO bonding is constitutionally secured by the full faith and credit of the state, which authorizes the State Auditor to levy a statewide property tax to pay debt service on GO bonding should the legislature appropriate insufficient funds to pay debt service.

GO bonding authorizations have varied in size over the past decade, but tend to be approximately $1 billion over a biennium. Two recent exceptions to this have been in 2004 when a bonding bill failed to pass, and in 2016 when a bonding bill did not pass the House and Senate in the same form in the last few minutes of the legislative session.

The chart below show the amounts authorized in General Obligation bonding, and the amounts sold to date, with the most recent bond sale in 2018.

*Does not include cancellations
Source: MMB

Appropriations bonds are debts that can be authorized by a simple majority of the legislature, and can be issued by other entities or the state, and are typically financed by a state General Fund appropriation, but are not secured by the full faith and credit of the state. The first examples of appropriations bonding were in 2006 and 2008 for the University of Minnesota for a football stadium and the bio-sciences district on the Twin Cities Campus. The university sold the bonds and a state General Fund appropriation re-pays the university for the cost of debt service. Similarly, a General Fund appropriation to the Housing Finance Agency pays the debt service on the Minnesota Housing Finance Agency housing bonds authorized in 2008, 2012, 2014, 2015,
2017, 2018 and 2019. The two largest appropriations bond authorizations were for the Vikings Stadium in 2012, at just under $500 million for both the state and Minneapolis’s share of the project, and the replacement state General Fund appropriations bonds which refunded the Tobacco securitization bonds for about $640 million. Tobacco securitization bonds were originally issued as revenue bonds in 2011, which did not count against the state’s debt capacity but carried a high interest rate. In 2012, the Tobacco securitization bonds were resold as General Fund appropriation refunding bonds, which had a lower interest rate than revenue bonds but counted against the state’s debt limit. 2018 Chapter 214 is the first capital budget to use the constitutionally dedicated the Environmental Natural Resources Trust Fund for appropriations bonds. 2019 Laws, Chapter 2 repeals those Environmental Natural Resources Trust Fund for appropriations bonds, which had not been sold, and issued GO bonds for the same projects, with an increase to a Closed Landfill project in Anoka County.

**History of Debt Management**

During the 1980 and 1990s, governors worked with the Department of Finance to establish a debt management policy. Several guidelines were adopted to manage debt and limit spending, including the “three percent guideline.” This rule stated that the appropriation for General Fund debt service in a biennium should not exceed three percent of non-dedicated General Fund revenues in that biennium. Simply stated, up to three percent of non-dedicated General Fund revenues could be used to make payments to repay the money the state borrows, giving the state a self-imposed credit limit (i.e. the state’s debt capacity).

During 2008 and 2009, Minnesota Management and Budget (MMB) (formerly the Department of Finance) began discussing the guidelines and potential revisions. These discussions stemmed from questions regarding how bond rating agencies view the state’s financial situation. In December 2009, the agency announced new guidelines:

- Guideline One: Total tax-supported principal outstanding shall be 3.25 percent or less of total state personal income.
- Guideline Two: Total amount of principal (both issued and authorized but unissued) for state general obligations, state moral obligations, equipment capital leases, and real estate capital leases are not to exceed 6 percent of state personal income.
- Guideline Three: 40 percent of general obligation debt shall be due within five years and 70 percent within ten years, if consistent with the useful life of the financed assets and/or market conditions.

The capacity under guidelines one and two is calculated at every November and February budget forecast, and are point in time figures.

**Debt Capacity**

Debt capacity is an estimation of how much the state can borrow based on its current guidelines. Based on the February 2019 forecast, Minnesota has approximately $10 billion in total principal outstanding (both issued and authorized but unissued) for state General Fund supported debt. Of this amount, $2.2 billion in principal is authorized but unissued, leaving about $6.4 billion in capacity for debt guideline two. The total principal of general fund supported debt outstanding
was $7.8 billion, leaving about $2 billion in capacity for debt management guideline one. Not all of the debt authorized will be issued immediately. MMB estimates that only about 15 percent of a bonding authorization will be issued (and be part of a bond sale) in the first year following the authorization.

The debt management guideline one capacity is not a limitation on the legislature on the maximum size of a GO bonding bill. Under some circumstances the legislature could authorize bills larger than guideline one capacity, and the bonds issued would not reach the limit immediately. Alternatively, the legislature could pass a bill smaller than guideline one capacity, and if there was a severe recession that results in decreases in personal income or enough previously authorized but unissued debt was now issued, the state could still exceed the guideline one limit. In other words, guideline one is relevant to when bonds are sold, not when they are authorized by the legislature.

Below is a chart showing the composition of state debt currently authorized and issued as they relate to the guideline one limit.
**Bond Ratings and Borrowing Costs**

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 a lower bond rating signifies a riskier investment, it carries a higher rate of return for the investor.

Rating agencies look at several factors when assessing credit worthiness including maintaining structural balance into the future and the level of budget reserve accounts. If the ratings are downgraded due to the current fiscal outlook, future interest costs would increase impacting the affordability of current and additional debt.

The state of Minnesota currently carries a Moody’s “Aa1” rating, a Standard and Poor’s “AAA” rating and a Fitch “AAA” rating. The Moody’s rating is one notch below the highest possible rating of AAA. From 1997 to 2003, the state carried this highest rating from all three rating agencies. Moody’s downgraded the state’s rating in 2003. Standard and Poor’s and Fitch both downgraded the state’s rating in 2011. Fitch revised the rating back to AAA in 2016 and Standard and Poor’s did so in 2018.

**Projects Included in 2019 Laws Chapter 2:**

**Department of Natural Resources**

- **Asset preservation:** $3.419 million in GO bonds is for the renovation and repair of DNR facilities. The facilities may include buildings, trails, roads, bridges, public water access sites, water control structures, and other capital assets to ensure the continued functionality and safety of the facilities.

- **Elk River:** $1.5 million in appropriations bonds to the city of Elk River for the dredging of Lake Orono.

- **South St. Paul Seidl’s Lake:** $781,000 in general obligation bonds to the City of South St. Paul for capital improvements for water quality in Seidl’s Lake and related storm water infrastructure.

**Pollution Control Agency**

- **Anoka County Waste Disposal Site Closed Landfill:** $10.3 million in GO bonds to the MPCA for remediation and cleanup of the WDE site in Anoka County.

- **Lake Redwood Reclamation:** $7.3 million in GO bonds to the Redwood-Cottonwood Rivers Control Area Joint Powers Board for dredging and reclamation of Lake Redwood.
Board of Water and Soil Resources

- **Reinvest in Minnesota Resources (RIM) Reserve Program:** $10 million in GO bonds for acquiring conservation easements from landowners to preserve, restore, create, and enhance wetlands and associated uplands of prairie and grasslands.

Public Facilities Authority

- **State Matching Funds for U.S. EPA Grants:** $6 million in GO bonds to provide the required 20 percent state match for estimated federal FY 2018-19 capitalization grants from the Clean Water Revolving Fund and the Drinking Water Revolving Fund. Funds will be used for low interest loans to local governments for clean water and drinking water infrastructure projects.

- **Wastewater Infrastructure Fund:** $14.652 million in GO bonds for grants to municipalities with high cost wastewater projects on the Minnesota Pollution Control Agency’s project priority list. Grants supplement low-interest loans from the Public Facilities Authority’s Clean Water Revolving Fund or match funding from the U.S. Department of Agriculture Rural Development.

- **Point Source Implementation Grants:** $38.348 million in GO bonds to provide grants to help cities pay for treatment plant upgrades to address water quality restoration and protection goals.

Metropolitan Council

- **Metropolitan Regional Parks:** $10 million in GO bonds for the council’s capital improvements program. Funds are used to acquire and improve the metro regional parks system.

Projects Included in 2019 First Special Session Laws Chapter 12:

*Department of Employment and Economic Development*

- **City of Minneapolis Shubert Center for Dance and Music:** $550,000 in GO bonds is re-authorized from a grant originally authorized in the 2014 session, and changes the grant recipient from Hennepin County to the city of Minneapolis.
Minnesota Housing Finance Agency

- **Housing Infrastructure Bonds:** Chapter 12 allows the Minnesota Housing Finance Agency to issue $60 million in General Fund backed statutory appropriation bonds for non-publicly owned affordable housing repair and construction.

Projects Included in 2019 First Special Session Laws Chapter 6:

**Duluth Regional Exchange District**

Article 10 of First Special Session Laws Chapter 6 (the tax bill) includes an authorization for up to $97.72 million in appropriations bonds for public infrastructure related to a medical district in Duluth. The city of Duluth may also opt to receive payments from the state rather than appropriations bond proceeds for public infrastructure projects, or some combination of the two, so long as the total infrastructure investment is not to exceed $97.72 million. The debt service or support payments to Duluth are limited to no more than $3.66 million in FY 2022, and $8.1 million in subsequent years, with no aid payments or debt service after 2055.

The eligible projects for the Duluth Regional Exchange District include the expansion of a parking ramp and a skyway connecting the parking ramp with hospital buildings, the expansion of streets and utilities, demolition of hospital buildings, and connections to district heating.

*For further information on capital budget issues contact Andrew Lee, House Fiscal Analysis Department at andrew.lee@house.mn or 651-296-4181.*