

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:**

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	?
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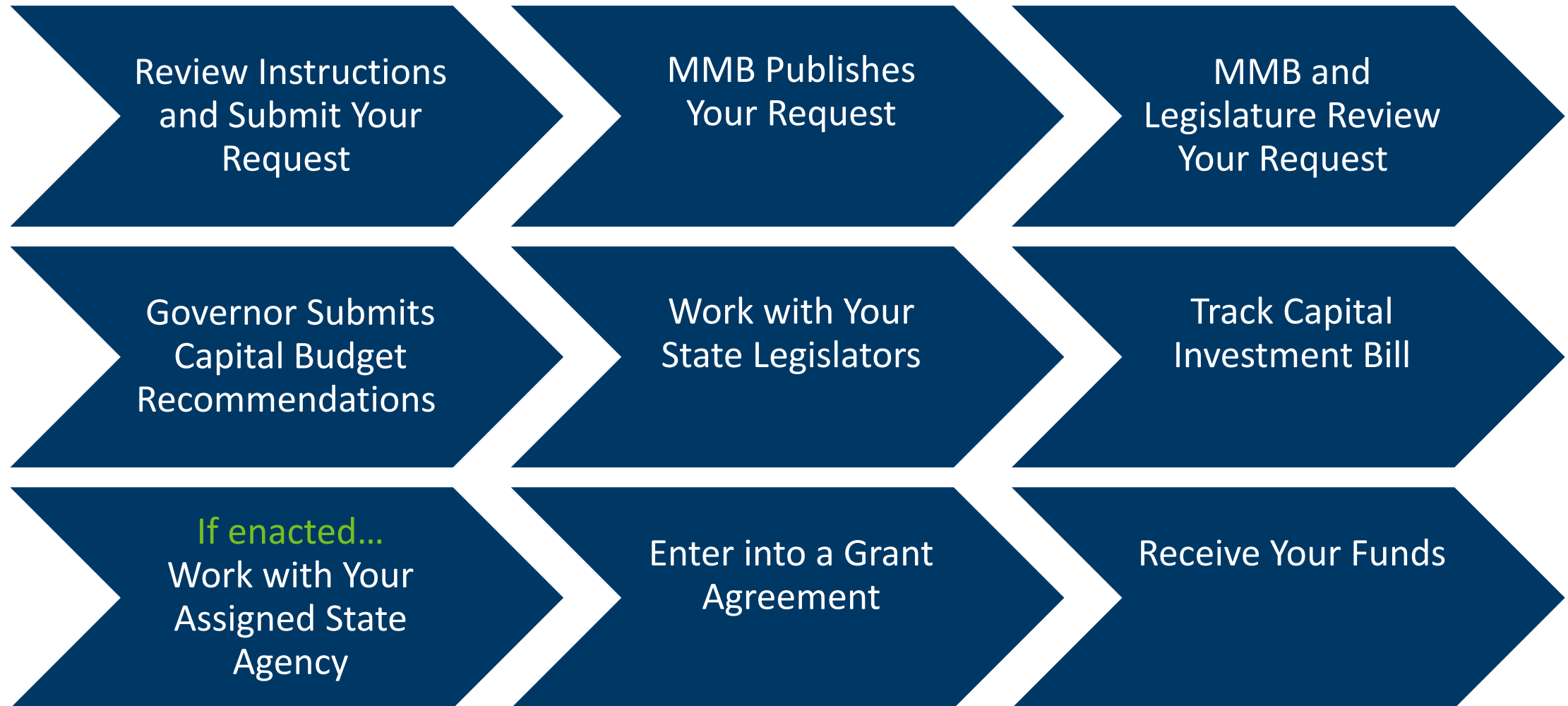
1. Capital Budget Process
2. When and How to Submit a Request
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5. State General Obligation Bonds

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

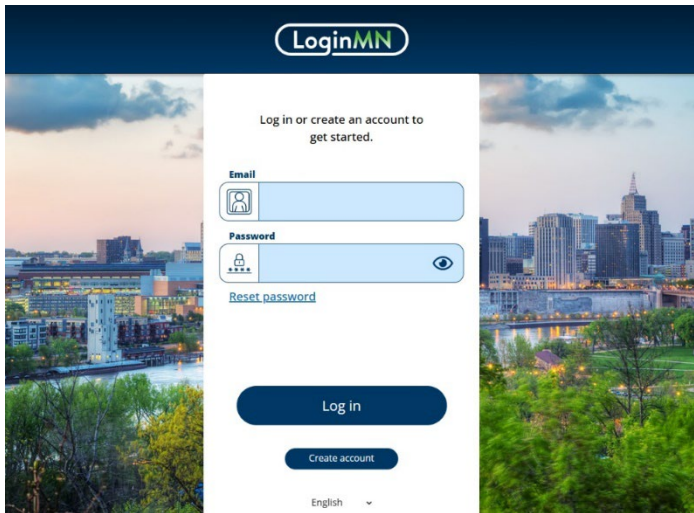
Note: Typically, site visits are conducted in the fall of odd-numbered calendar years, based on the information submitted in CBS by mid-June and published on July 15. Additionally, local governments are encouraged to submit projects by mid-June for publishing on July 15 to ensure full consideration (Minnesota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

How Do I Submit a Request?

1. Visit MMB's Capital Budget Instructions website* in early May
2. Navigate to the page for local governments
3. Confirm the instructions are for the 2026 process
4. Review the instructions documents and resources
5. Create a LoginMN account using your local government (work) email
6. Enter your request in the Capital Budget System (CBS)

*Website: <https://mn.gov/mmb/budget/budget-instructions/capbud/>

New Login for All Users



Reminder:
Use your work email to create your LoginMN account.
It's OK to authenticate with your work or personal cell.

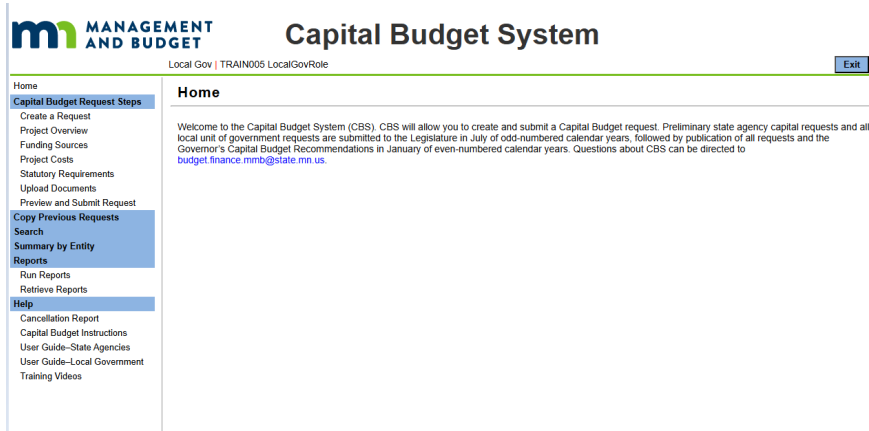
Starting in the 2026 Capital Budget process, local government staff will need to create and use a LoginMN account to access the Capital Budget System (CBS).

- Previous CBS users will be emailed instructions about how to create a LoginMN account, as legacy accounts will no longer be active. Instructions will also be posted on MMB's capital budget instructions webpage: <https://mn.gov/mmb/budget/budget-instructions/capbud/> and login.mn.gov.

What this means for you:

- All local government staff will need a LoginMN account to enter a request for the 2026 Capital Budget process.
- LoginMN provides modern security features including multi-factor authentication and enhanced fraud detection.
- MMB expects easier, quicker onboarding and fewer access issues with streamlined user authentication.

Enter Requests in the Capital Budget System (CBS)



Pro Tip:
Prepare information outside of CBS and input it using 'Copy and Paste as Plain Text' to ensure proper formatting

- The Capital Budget System (CBS) is a web-based application that collects capital request information. CBS will open in early May 2025.
- MMB authorizes system users to ensure that only true political subdivisions enter requests. Accordingly, use your work email address when setting up your LoginMN account.
- All requests must be entered with adequate information to allow for meaningful consideration of the project by the Governor and the Legislature.

What Information is Collected and Published?

Request information entered in CBS generates reports that are published for each local government.

- **Project Summary:** A list of all request titles, in priority ranking, with request amounts for the 2026 Legislative Session, plus 2028 and 2030 for future phases
- **Project Narrative:** A project summary, the request amount, the priority rank, a detailed description and rationale, and other background information
- **Project Detail:** Complete detail of all funding sources and project costs, and statutory requirements

Albert Lea, City of

Projects Summary

(\$ in thousands)

Project Title	Rank	Fund	Project Requests for State Funds			Gov's Rec 2024	Gov's Planning Estimates	
			2024	2026	2028		2026	2028
Albert Lea Wastewater Treatment Facility Regulatory Updates	1	GO	40,000	0	0	0	0	0
Blazing Star Landing Redevelopment Project	2	GO	1,800	0	0	0	0	0
Total Project Requests			41,800	0	0	0	0	0
General Obligation Bonds (GO) Total			41,800	0	0	0	0	0

Previous requests like the 2024 Legislative Session example above can be found on MMB's Previous Capital Budgets website:
<https://mn.gov/mmb-stat/documents/budget/capital-budget/final-capital-budget/2024/local-government.pdf>

Reminder:

Enter project sources and costs as a budget, not as cash flow. The 2026 column represents the project or project phase's budget related to the state request.

New Statutory Requirements Screen Question

Starting in the 2026 Capital Budget process, local governments are required to review a new “Capital Budget Requirements” document, linked in the Statutory Requirements screen, before submitting a request in CBS.

- This document is a new resource summarizing the expected requirements that would apply to projects enacted in a capital investment bill, subject to any changes directed in the final bill.



Has the project owner requesting state funds reviewed and agree to meet the applicable capital requirements listed in the “Statutory Requirements” below and in the “Capital Budget Requirements” section of the MMB Capital Budget Instruction documents?

See: <https://mn.gov/mmb/budget/budget-instructions/capbud/>

Yes No N/A

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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.



As in previous years, local governments may either apply their own inflation estimates to project costs or use MMB's inflation calculator to incorporate inflation adjustments.

- Regardless of the approach, inflation must be accounted for to ensure adequate project funding.
- Starting in the 2026 Capital Budget process, MMB's inflation calculator is on the "Project Cost" screen with clear instructions on how to use this optional tool.



Resources



Resources Available in Early May:

<https://mn.gov/mmb/budget/budget-instructions/capbud/>

- **Memo:** Highlights key dates, what's new for the 2026 process, and Governor's priorities
- **Instructions:** Provides comprehensive information about the fields in CBS
- **CBS User Guide:** Provides comprehensive information about using the CBS system
- **Live Q&A Webinar:** For local governments (recording will be available); date in late May will be shared with LMC

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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

Ineligible Capital Expenditures

Ineligible examples include:

- Options to purchase land or buildings
- Fixtures, furnishings and equipment that don't fit into categories above
- General studies to evaluate the need for a capital project
- Educational, promotional or informational costs incurred for a project not yet sited
- Computer and financial modeling for a project not yet sited
- Master planning
- All relocation and moving costs
- Operating and maintenance costs
- Betterments to leaseholds with less than a 10-year term
- Software and data management systems
- Personal computers
- Marketing expenses

**This is not an exhaustive list*

Use of State Bond Financed Property

State law requires an MMB-approved Use Agreement where a third party will be operating the governmental program on behalf of the state agency or political subdivision

- M.S. §16A.695, Commissioner's Order and Use Agreement Checklist
- Limitations on the term of these agreements ($\leq 50\%$ of the useful life is rule of thumb) and rent

Federal tax law places significant restrictions on the direct or indirect use of bond financed property by a nongovernmental entity ("private use")

- IRS regulations allow for limited safe harbors
- Consult with MMB early

Examples of Private Use:

- Rented skyboxes in sports facilities
- Concessions
- Naming rights, broadcast rights, advertising, sponsorships
- Leased space
- Office buildings
- Convention center/arenas
- Airport terminals
- Parking garages
- Academic institutions
- Stadiums
- Business incubators
- Cell phone towers, solar panels, electric charging stations

**This is not an exhaustive list*

Statutory Authority & Program Operation

- Grantee must have independent statutory authority to operate the project (for example, via charter or statute)
- The bonding legislation alone does not normally provide authority to operate the project or program
- Grant recipients must demonstrate to granting agency that they have an ability and plan to fund the program intended for the facility
 - If operated by a public entity:
 - Entity must submit to granting agency a budget item or resolution supporting operation
 - If operated by a private party:
 - Granting agency must approve initial program implementation plan
 - Annually, granting agency must review program evaluation report and budget

How to Access Capital Project Funding Once Enacted



Connect with Granting State Agency

Grant manager assigned

Complete any pre-award paperwork required by agency



Submit Full Funding Package for State Agency and MMB Review

[Capital Grants Manual](#) lists acceptable forms of documentation (M.S. §16A.502)

Prepare the Sources & Uses exhibit for the grant agreement



Obtain MMB Approval for Any Ground Lease or Easement or Use Agreements

[Ground Lease and Easement Checklist](#) and [Use Agreement Checklist](#) posted on MMB's website



Enter into Grant Agreement with State Agency

[Grant agreement templates](#) posted on MMB's website

Grant payments are reimbursement-only following submission of an invoice

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