



May 10, 2010

**SF 2809, 1st Engrossment  
(Higgins)**  
**HF 3184, 1st Engrossment  
(Champion)**

<b>Local Fiscal Impact</b>				
Net Statewide Expenditure Increase (Decrease)				
Dollars in Thousands, State Fiscal Years				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Statewide</b>	0	0	0	3,119

**Local Governments Contributing:**

**Counties:** Hennepin, Ramsey

**Cities:** Duluth, Lake Elmo, North Branch, St. Paul, Thief River Falls

**EXPLANATION OF BILL**

The House and Senate versions of this bill are almost identical. They require certain recipients of bond proceeds to prepare a plan as part of their bidding processes to recruit individuals from training centers, the unemployed and certain targeted populations. Recipients must also disseminate information about subcontract and employment opportunities generated by the bond proceeds to the targeted groups. Lastly, bond recipients must report electronically to the commissioner of employment and economic development about the number of jobs created and retained by the project, hours worked by individuals from the targeted communities and total calculated and actual energy savings for the project and other information every six months until projects are completed. These requirements would take effect for local governments as of January 1, 2012.

**LOCAL IMPACT ANALYSIS SUMMARY**

MMB asked local governments to estimate the additional cost of this legislation as a percentage of their total project budgets. The responses ranged from 0.06 percent to over 20 percent. Most responses ranged from 0.5 percent to 4 percent. We eliminated both the 20 percent estimate and the estimates below 0.2 percent as probable outliers and arithmetically averaged the others (with one estimate for each respondent), with no weighting for project size. We arrived at an average of **1.74 percent**, and we used this estimate in our analysis.

The limited sample of projects is shown in Appendix 1. On average, the bonding appropriation represented 29 percent of the local government’s total project budget. For purposes of this analysis, MMB assumed that this percentage would apply to all local projects for purposes of applying the assumed increased cost factor of 1.74 percent.

A series of assumptions also had to be made of the size of capital budgets in future years and the rate at which the bond proceeds would be expended. Those assumptions are explained below.

The 2010 bonding bill provided for \$695,349,000 in new bonding appropriations (not counting \$9,062,000 of cancellations of past bonding appropriations). This figure does not include trunk highway bonds. We did not include these projects because the vast majority of trunk highway bond proceeds fund state-owned rather than locally-owned projects. Of this \$695,349,000, a total of \$332,034,000, or 47.8 percent, will go to local governments. MMB assumed that this percentage would apply in future years.

For purposes of the debt capacity forecasts which MMB prepares pursuant to Minn. Stat. Sec. 16A.105, MMB assumes that future capital budgets will be \$725 million in even-numbered legislative sessions and \$140 million in odd-numbered years, not counting trunk highway bonds. Thus MMB has assumed capital budgets of \$140 million in each of fiscal years 2011 and 2013 and \$725 million in 2012.

For purposes of debt service forecasting, MMB assumes that even-year capital budgets will be expended at the rate of 15 percent in the first fiscal year after enactment, 35 percent in the second, 35 percent in the third, 13 percent in the fourth and 2 percent in the fifth. Odd-year capital budgets are assumed to be expended at the rate of 20 percent the first fiscal year after enactment, 55 percent in the second and 25 percent in the third. (Because odd-year bonding bills are presumed to include projects that are emergency in nature, it is assumed that the proceeds will be spent more quickly.)

MMB has assumed that local governments will incur the additional costs resulting from this legislation at the same rate as MMB assumes bond proceeds will be spent. However, in practice, the additional bidding/recruitment cost will likely be incurred earlier while the costs of reporting will likely be incurred evenly over the life of the project. This is complicated by the fact that for a very large project, multiple contracts may be entered into over time rather than all at the beginning, and also that some projects do not get off the ground for one or more years. Another complicating factor is that over half of the respondents estimated the total cost and did not break it down into the bidding/recruitment component and the reporting component. Consequently, MMB used the assumption stated in the first sentence of this paragraph.

Lastly, the bills provide that their requirements will not apply to local governments until after January 1, 2012. For purposes of this analysis we have interpreted that to mean that local governments would have to comply with respect to bonding appropriations enacted after January 1, 2012.

Please note that this local impact note does not address all of the issues raised by local governments in response to the proposed legislation. The local note process focuses only on the financial impact of a bill. Comments on the merits of the policy represented are outside of the scope of MMB's local impact note analysis.

**Appendix 1** shows the list of the cities and counties who responded to our inquiry along with the 2010 bonding appropriations as to which they responded.

**Appendix 2** shows our calculations, based on all of the foregoing assumptions. It should be noted that the local impact through fiscal year 2013 is limited because it reflects only the 2012 capital budget (this is true for local governments because of the effective date referenced above). This impact would grow every year for a number of years thereafter as expenditures from subsequent capital budgets would be subject to the legislation.

**APPENDIX 1. Summary of Bonding Projects Reported On**

<b>Local Government</b>	<b>Description of Project</b>	<b>2010 Bonding Bill Appropriation (in thousands)</b>	<b>Total Project Budget (in thousands)</b>	<b>Estimated Additional Cost</b>
Hennepin County	Lowry Avenue bridge replacement	\$10,000	\$27,000	<b>0.5%</b> of project budget
Ramsey County	Rice Street and Trunk Hwy. 36 bridge reconstruction	5,000	27,500	<b>0.21%</b> of project budget
	Gillette Children's Specialty Healthcare capital improvements	10,000	62,000	<b>0.07%</b> of project budget
City of Duluth	Airport new terminal phase II	11,700	64,000	<b>4%</b> of project budget
City of Lake Elmo	Water and sewer projects	2,000	unknown – at least 2,000	<b>1-2%</b> of project budget
City of North Branch	Main water line project (through DEED Greater MN Business Development Infrastructure Grant Program)	1,000	3,800	<b>2%</b> of project budget
City of St. Paul	Como Zoo Phase 2 exhibit renovation	11,000	11,000	<b>20%</b> of project budget plus \$500,000 initial investment in personnel, software and other technology
	Ordway Center for the Performing Arts concert hall	16,000	35,000	
City of Thief River Falls	Airport multipurpose hangar	2,097	2,796	<b>0.06%</b> of project budget
<b>TOTALS</b>		<b>\$68,797</b>	<b>at least \$235,096</b>	

**APPENDIX 2. Estimated Additional Cost to Local Governments**

*(Dollars in thousands)*

Bonding Year	Total Bonding	Local Gov't Projects (1)	Total Local Gov't Project Budget (2)	FY 10		FY 11		FY 12		FY 13	
				Spent	Additional Cost to Local Gov'ts	Spent	Additional Cost to Local Gov'ts	Spent	Additional Cost to Local Gov'ts	Spent	Additional Cost to Local Gov'ts
2010	695,349	332,377	1,146,127	0	0	171,919	0 (3)	401,144	0 (3)	401,144	0 (3)
2011	140,000	66,920	230,759	0	0	0	0	46,152	0 (3)	126,917	0 (3)
2012	725,000	346,550	1,195,000	0	0	0	0	0	0	179,250	3,119
2013	140,000	66,920	230,759	0	0	0	0	0	0	0	0
<b>TOTALS</b>					<b>0</b>		<b>0</b>		<b>0</b>		<b>3,119</b>

(1) Assumed to be 47.8% of total bonding based on the 2010 bonding bill percentage discussed above.

(2) Appropriation is assumed to be 29% of total project budget as discussed above.

(3) Cost to local governments is -0- because the legislation would not apply to local governments until after January 1, 2012.