



Capital Grants Manual

A guide for local grantees that receive state capital grants

Revised October 2026

The State of Minnesota Capital Grants Manual was prepared by Minnesota Management and Budget (MMB) in cooperation with the Department of Administration.

This manual is intended as a general guide for local grantees who receive state capital grant funds. Local grantees who are granted a capital budget appropriation will receive their appropriation through a state agency. Individual state agencies may impose additional requirements with respect to their capital grant programs or for local project grants administered by those agencies.

This manual highlights the steps grantees need to follow in order to receive state capital grants. It offers guidance intended to describe the steps required after the Legislature has approved an appropriation for a project or grant program and the Governor has signed the legislation into law. While this information can help inform prospective local grantees of things they should be aware of before submitting a capital budget request, it is not intended to provide instructions for that process. Further guidance on the capital budget submission process can be found in MMB's capital budget instructions documents, a link to which is provided on page 23.

Please note that this manual only applies to capital grants awarded from capital budget bills that are under the jurisdiction of Minnesota Management and Budget's statutes and policies. It does not provide guidance for grant appropriations from state agency operating budgets that are under the jurisdiction of the Department of Administration's Office of Grants Management, which has different rules and grant forms than capital grants governed by MMB.

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Purpose of this Capital Grants Manual

The State of Minnesota Capital Grants Manual is intended to provide local grantees with information regarding what they need to do prior to receiving state capital grant funds. This primarily involves projects that are one-time special appropriations, including capital grants funded from state bond funds and the state general fund. It also provides helpful information for projects funded through state agency capital grant programs, which may have additional requirements established by the granting agency.

The Minnesota Legislature frequently appropriates state funding to local grantees for a variety of capital projects. Funding may come from bond proceeds or from the general fund. Agencies, local governments and other grantees need to be aware of the source of funding because requirements and limitations on spending can vary.

State agencies often receive calls from local grantees who have received legislative approval for their capital project asking, “When do I get the state’s check?” Unfortunately, it’s not that easy.

Capital projects financed wholly or in part by state general obligation bonds (“bond financed property”) are subject to requirements of the Minnesota Constitution, state statutes, the specific language of the appropriation bill, federal tax regulations, MMB capital grant policies, and state accounting policies. Capital projects financed by general fund cash are subject to requirements of state statutes, the specific language of the appropriation bill, MMB capital grant policies, and state accounting policies. Certain steps must be followed before state funds can be released. These can vary depending on the size and type of project.

Each section of this manual provides general information that local grantees will need to understand about the grant making process. Read each section carefully. Call the grant administrator at the granting agency if you have questions. The state agency making the grant will discuss any requirements in their grant agreement that are in addition to those contained in this manual.

Links to all of the documents referenced in this manual can be found on page 23.

Roles and Responsibilities in the Capital Grant Process

Grantees should be aware of the roles and responsibilities of various parties in the capital grant process. Each has requirements that must be followed in order to receive state grant funds.

Role of the Governor

- ✓ Prepare a 6-year Strategic Capital Budget Plan

Role of the State Legislature

- ✓ Enact legislation that authorizes funding for the capital project
- ✓ Review project design documents prior to bidding

Role of the Department of Administration

- ✓ Review project predesign documents prior to the design phase

Role of Management and Budget (MMB)

- ✓ Coordinate the governor's capital budget process
- ✓ Review project funding requests submitted via the Capital Budget System (CBS)
- ✓ Answer questions regarding capital grant requirements
- ✓ Approve use agreements for projects funded from general obligation bond proceeds
- ✓ Confirm there is sufficient funding committed to complete the project
- ✓ Prepare the cancellation report for capital appropriations more than four years old which have not been spent or otherwise encumbered
- ✓ Ensure appropriations for capital projects are established in the state accounting system (this allows granting agencies to disburse state funds)
- ✓ Approve sales of land or facilities that received state capital grant funds

Role of the State Agency Making the Grant

- ✓ Prepare grant agreements for review and approval of the local grantee
- ✓ Forward design documents to the legislature for review
- ✓ Review project operating budget
- ✓ Answer questions regarding the grant-making process
- ✓ Sign the completed grant agreement
- ✓ Review invoices and approve payments to the grantee
- ✓ Enforce provisions of executed grant agreements
- ✓ Monitor the project for the term of the grant requirements

Role of the Local Grantee

- ✓ Read the requirements contained in state statutes, this manual, state grant agreements, and the enacted law authorizing project funding

- ✓ Consult with your local legal and financial advisors
- ✓ Provide all information requested by state agencies, including a complete sources and uses of funds form
- ✓ Review the capital project checklist starting on the next page to make sure the project can meet the requirements for a capital grant (all applicable questions must be answered “Yes” to receive state funds)
- ✓ Review and sign the grant agreement
- ✓ Review and sign the use agreement, upon state approval, if applicable
- ✓ Provide payment requests to the state granting agency with appropriate documentation
- ✓ Complete the project
- ✓ Operate the project for a time period equal to 125% of its useful life
- ✓ Record a real property declaration acknowledging the restrictions on capital grant financed property
- ✓ Certify annually to the granting agency and MMB the continuing operation of the project for the intended purpose

Please note: The sources and uses form and real property declaration template can be found in the attachments to the Grant Agreement forms listed on page 23.

Capital Project Checklist

This checklist for grantees to use to determine whether their projects meet the requirements that they must satisfy to receive state capital grants. The following steps are not necessarily sequential. Grantees may wish to complete some or all of the steps simultaneously. The granting agency will advise accordingly.

*****Grantees should NOT incur project costs or expect state reimbursement until the following requirements have been satisfied. All of the applicable following questions must be answered “Yes” to comply with state capital grant requirements as established by the Minnesota Constitution, state statutes, state law, state accounting policies, federal tax regulations, and state grant agreement policies. Any “No” answer will likely result in the grant not being processed.***

1. Public Purpose (see pages 10-12 of this manual)

- Are the programs and services to be provided by the project consistent with the public purpose expressed in the state grant appropriation or grant program statutes?

2. Qualifying Ownership Interest (see pages 10-12)

- Will the grantee possess a qualifying ownership interest in the capital project? A “qualifying ownership interest” means fee ownership or a long-term noncancellable lease or easement covering at least 125% of the useful life of the project.

3. Qualified Capital Expenditures (see page 12)

- Will expenditures for the portion of the project paid by state funds only cover uses authorized by law and, if funded by state general obligation bond proceeds, constitute qualified capital costs?

4. Total Project Funding (see pages 13-15)

(This applies for projects that will be financed from multiple funding sources, with total project costs in excess of the state appropriation. For projects funded entirely from the state appropriation, proceed to the next question.)

- Are all non-state funding sources committed or legally binding?
- Has documentation of all funding sources been received and approved by both the granting agency and MMB?

5. Predesign Review by the Department of Administration (see pages 17-18)

The grantee should read the predesign requirements of Minn. Stat. §16B.335 to verify whether the requirements contained in that section apply to its project. Predesign review must occur before design can begin. A predesign manual is available from the Department of Administration (see page 23 for a link to the manual).

- If Minn. Stat. §16B.335, subd. 3 does not exempt the project from predesign review, has the Department of Administration received and approved the project predesign?

6. Legislative Design Review (see pages 17-18)

The grantee should read the design review requirements of Minn. Stat. §16B.335 to verify whether the requirements apply to its project. Design review must occur before bid documents can be prepared.

- If Minn. Stat. §16B.335, subd. 1(b) does not exempt the project from design review, have the chairs of the House Ways and Means Committee and Senate Finance Committee received and approved the project design and have the chairs and ranking minority members of the House Capital Investment Committee and the Senate Capital Investment Committee been notified?
- If Minn. Stat. §16B.335, subd. 1 does not exempt the project from design review and if the project has changed significantly in scope since the project appropriation was made or since the predesign was completed, have the chairs and ranking minority members of the House Ways and Means and Capital Investment Committees and Senate Finance and Capital Investment Committees been notified and advised of the changes?

Question 7 applies to projects financed by state general obligation bonds only. For general fund cash projects, proceed to Question 8.

7. Approval of Use Agreements (see page 19)

The grantee should read the requirements of Minn. Stat. §16A.695 and the *Fourth Order Amending Order of Commissioner of Finance Relating to Use and Sale of State Bond Financed Property* dated July 30, 2012 (the "Commissioner's Order"), to verify whether the requirements apply to its project (see page 23 for links to the statute and Order).

- If the project will be used or operated in whole or in part by an entity other than the grantee, has the grantee completed a G.O. Bonding Compliance Checklist for Use Contracts (see link on page 23)?
- If the project will be used or operated in whole or in part by an entity other than the grantee, has the use agreement been approved by MMB?

8. Program Operational Funding Review (see page 16)

- Will the grantee have substantial ongoing oversight of the public program contained in the facility or operated on the property?
- If the project will be operated by a public agency, has the state granting agency received and approved a budget document or resolution of the local governing board pledging to support and fund the operations of the program?
- If the project will be used or operated by a private or non-profit entity, has the state granting agency received and approved the program operating budget, which may include the operator's pro-forma financial statements?

9. Grant Agreements (see pages 8-9)

- Has the state granting agency prepared a grant agreement for review by the grantee?
- Has the grantee signed the grant agreement?
- Other than ongoing requirements, have all the conditions contained in the grant agreement been met and all required information provided to the granting agency?
- Has a real property declaration been recorded that prohibits the sale of the project property without the consent of the commissioner of MMB?

10. Project Cancellation (see page 21)

- To avoid automatic cancellation of any appropriation, will all grant funds be encumbered or spent within the time period specified under Minn. Stat. §16A.642?

General Obligation Bond and General Fund Capital Grant Requirements

While most capital grant requirements apply to all projects regardless of funding source, some requirements vary slightly depending on whether the project is funded via state general obligation bonds or general fund cash. The individual sections of this manual describe those differences under each individual topic, while the table below provides an overview of the differences in requirements for capital grant projects funded by state general obligation bonds and by general fund cash.

LEGAL REQUIREMENTS	GENERAL OBLIGATION BOND PROJECT	GENERAL FUND CASH PROJECT
Public purpose	Required	Required
Public ownership	Required	Required if specified in law
Public program oversight	Required	Required
Predesign review by Department of Administration	Required for most projects. See Minn. Stat. §16B.335	Required for most projects. See Minn. Stat. §16B.335
Design review by legislative chairs	Required for most projects. See Minn. Stat. §16B.335	Required for most projects. See Minn. Stat. §16B.335
Qualified capital expenditures	Required	Required, unless otherwise specified in law
Matching funds	Required when specified in law or if total capital costs exceed the state appropriation	Required when specified in law or if total capital costs exceed the state appropriation
Full Funding	Required	Required
Use agreement review by MMB	Required if facility will be operated by an entity (whether public or private) other than the public entity receiving the grant	Not required, but if the facility will be operated by an entity other than the grantee, the use agreement will need to be provided to the granting agency for review
Program operational funding review by granting agency	Required	Required
Grant agreement	Required	Required
Appropriation cancellation after four years	Required for balances that are neither spent nor encumbered	Required for balances that are neither spent nor encumbered

General Fund Grant Requirements: Governing Authority

This manual only describes the requirements for capital grants subject to MMB's statutes and policies. The legislature may also on occasion award general fund grants via state operating budgets. Grants funded through state operating budgets are not subject to the requirements described in this document and are instead subject to requirements covered in Minn. Stat. §§ 16B.97 and 16B.98 and additional policies established by the Department of Administration's Office of Grants Management (OGM). If a local grantee has any questions about which requirements apply to their grant, they can contact MMB Capital Bonding Staff (see page 24) or their grant manager at the administering agency.

Grant Agreements

Grantees must enter into a grant agreement with the state before receiving any state money. Grant agreements for state bond financed property must include all the provisions required by Minn. Stat. §16A.695, the Commissioner's Order and federal tax law provisions applicable to tax-exempt bonds. Many provisions that apply to bond financed projects also apply to general fund projects and are included in general fund grant agreements. MMB has drafted standard grant templates for capital projects that comply with all these requirements.

The granting agency is responsible for preparing grant agreements for bond financed and general fund supported projects. Any questions related to these agreements should first be directed to the assigned grant manager at the administering agency. They will make a final determination regarding which type of grant agreement will be used and will prepare it for review by the grantee.

There are three basic types of grant agreements entered into by the state when awarding capital grants. The grant agreement that is used depends on the nature of the project as well as the funding source (state general obligation bond proceeds or state general fund dollars). No matter the type, the grant agreement provides local grantees with essential information about what is required of them, as well as the timelines within which they are required to start and complete work on their project.

Grant Types

End grant

This type of grant agreement reimburses the grantee after the project has been fully completed. It requires the grantee to provide up-front financing during development of the project, with state reimbursement after project completion and occupancy. Some type of documentation establishing that the project has been completed, such as a certificate of occupancy, is required to receive reimbursement from the state. If the authorizing legislation requires matching funds, documentation confirming compliance with the matching requirement will also need to be supplied before any portion of the grant is disbursed.

This grant type may not be feasible for all projects. However, from the state's perspective this grant requires the grantee to assume full responsibility for completing the project and minimizes any financing risk to the state.

Construction grant

This type of grant agreement disburses grant proceeds during the construction process on a cash-needed basis. As such, it is preferred by many grantees. State reimbursements are provided to grantees on a pro-rata basis, with the reimbursement ratio reflecting the state's share of total project costs. (For example, if the state grant is for 50% of the total project costs, the state reimbursement would be \$50,000 for a submitted invoice of \$100,000.)

Provisions within this grant agreement require, among other things, that the grantee provide a fixed price construction contract and a payment and performance bond prior to the release of any state funds. This

serves as security to the state that the project will be completed within available resources. Documentation of expenses is required with ongoing draw requests.

Predesign and design grant

This type of grant agreement only funds the predesign and/or design phase of a project. It is the shortest and most specific of the three types.

State grant funds may either be disbursed at the conclusion of the project or on a cash-needed basis during the predesign/design process.

Note that if a predesign or design grant is funded with state general obligation bonds, then the facility or property will become bond financed property subject to all the requirements in Minn. Stat. §16A.695 if and when the project is constructed, even if it is constructed with funds other than state general obligation bonds. Once a facility or property becomes bond financed property, it will remain so for a time period equal to 125% of its useful life or until such property is sold in accordance with Minn. Stat. §16A.695 and the Commissioner's Order. A state general fund capital grant used for predesign or design will trigger a similar restriction if and when the project is constructed, even if it is constructed with non-state funds, also requiring the facility to remain under its capital grant restrictions for a time period equal to 125% of its useful life.

No Advance Payments

The state will not advance funds to grantees prior to a signed grant agreement under any circumstances and grantees cannot be reimbursed for expenses paid prior to the enactment of their project's authorizing legislation. Funds will be disbursed only when the grant agreement is signed and project costs are being incurred. No funds will be disbursed prior to the start of the project. Funds will be disbursed only through an end grant, construction grant, or predesign/design grant.

Real Estate Declaration

Section 7.02 of the Commissioner's Order requires that a declaration be recorded against real estate that is purchased or improved with state bonds. Recording the declaration is a very important step in implementing the sale provisions of Minn. Stat. §16A.695, subd. 3, including the disposition of sale proceeds. The Commissioner's Order also allows grant recipients to apply for a waiver of the declaration requirement for portions of projects used to acquire or better real property within roads, highways or utility or transit corridors, easements or other public rights of way. Grantees should consult with their legal advisors to fully understand these requirements. The same declaration requirements apply to projects that are funded by general fund cash as part of their state capital grant agreement.

Agencies must send a copy of the recorded declaration to Capital Bonding Staff in MMB's Debt Management Division (see page 24).

Ownership, Use, and Allowable Expenditures

All state grants financed from general obligation bonds must comply with requirements of the Minnesota Constitution regarding definitions of eligible capital projects and the proper use of state bond proceeds. This includes requirements for public ownership and oversight, public purpose, and eligible capital expenditures. General fund cash projects generally have greater flexibility in how state funding may be used but still must be owned by the grantee, comply with all grant requirements, and only be expended for uses authorized in their enacted legislation.

This chapter describes each type of financing, focusing on ownership requirements, operation of the project, and eligible grant expenditures.

To determine which requirements apply, the grantee should first read the legislation that provides funding for the project to determine whether it is bond financed or from general fund cash. Most capital projects are bond financed. General fund projects are specifically identified as such in the language of the state appropriation. If you are in doubt, call the state granting agency named in the appropriation bill.

State Bond Financed Projects

The Minnesota Constitution, Minn. Stat. §16A.695 and the Commissioner's Order detail the restrictions and requirements associated with property financed with state bond proceeds. State bond funds have constitutional restrictions that limit the use of funds to improvements of a capital nature, require that the facility or property be owned by a state agency or political subdivision of the state, and require that a public program be provided in the facility or operated on the property. Therefore, bond proceeds may only be used to finance publicly owned projects (e.g., state buildings, state parks, and local community centers, libraries, roads, water treatment plants, etc.).

Required Public Ownership

Article XI, Section 5(a) of the Minnesota Constitution limits the appropriation of state general obligation bonds to state agencies and political subdivisions of the state. Because of this constitutional constraint, Tribes, non-profits and other private organizations are not eligible to receive a grant of state general obligation bond proceeds.

The required public ownership for bond financed property can be accomplished through a fee simple interest or another "qualifying ownership interest." Other qualifying ownership interests include a sufficiently long-term lease or easement interest (having a term that is at least 125% of the useful life of the project) that cannot be cancelled by the lessor or grantor. The long-term lease or easement may be entered into specifically for the purpose of making a project eligible to receive a state bonding grant. A draft lease or easement must be submitted to MMB for approval prior to its execution together with a completed Checklist for Ground Leases and Easements. A link to that checklist is on page 23.

Public Facilities Operated by Another Entity

A local government that owns a bond financed project may allow another entity to manage the facility or property and operate its public program with proper oversight by the owner. For example, a city that

receives bond proceeds to build a municipal community center may want to contract with an outside entity to manage the day-to-day activities in the building. Similarly, if a private organization leases property to a local government so that a project has a qualifying ownership interest for bond financing, the local government may wish to enter into a use agreement, often in the form of a lease or management agreement, with the private organization to allow the latter to operate the facility. In scenarios like these the public owner must enter into a use agreement with the operating organization to ensure that the public program will be carried out.

The use agreement must comply with MMB's Checklist for Use Agreements, be for a term that is no greater than 50% of the useful life of the project, and be reviewed and approved by MMB. See the information relating to use agreements starting on page 19 for more information and page 23 for a link to MMB's checklist.

Please note that a local unit of government that enters into a use agreement with another entity, whether private or public, for the operation of bond financed property remains ultimately responsible for the operation of that property. Even if the entity operating the property terminates or walks away from the use agreement, the public owner must ensure that the public program continues.

Public Purpose Maintained for 125% of the Facility's Useful Life; Sales

Projects financed with state bond proceeds must remain in public ownership and be used for their authorized public purpose for a time period equal to 125% of the useful life of the project. Bond financed property may be sold only if it is determined by official action that the property is no longer usable or needed by the public entity to carry out the intent of the project. Sales must meet all applicable requirements and be approved by MMB. (See pages 19-20 for more information.)

State General Fund Financed Projects

Unlike state bond financed projects, general fund supported projects do not have the same constitutional restrictions that require public ownership. Therefore, private and non-profit organizations, as well as Tribes, are eligible to directly receive grants funded by cash appropriations from the general fund or another state fund for capital projects they will own.

Many provisions that apply to bond financed projects still apply and are included in the general fund grant agreement as a matter of good public policy or when required by statute or authorizing bill language. For example, all grantees must have a qualifying ownership interest and maintain the project for its authorized public purpose for a time period equal to 125% of the useful life of the facility.

Qualifying Ownership Interest

Grantees must have a qualifying ownership interest in the project to receive a state general fund capital grant. The required ownership can be a fee simple interest or a sufficiently long-term lease or easement interest (having a term that is at least 125% of the useful life of the project) that cannot be cancelled by the lessor or grantor. The long-term lease or easement may be entered into specifically for the purpose of making a project eligible to receive a state capital grant.

Public Purpose Maintained for 125% of the Facility's Useful Life; Sales

Projects financed with state general fund appropriations must be used for their authorized public purpose for a time period equal to 125% of the useful life of the project. During this period, a project may be sold only if it is determined by official action that the property is no longer usable or needed to carry out the intent of the project. The sale must be made at fair market value with all or a portion of the net sale proceeds returned to the state. This may include a return of all state grant funds and a pro-rata portion of the facility's appreciated value. (See pages 19-20 for more information.)

Allowable Expenditures

General obligation bond proceeds and general fund cash appropriations which have been limited to capital expenditures may only be used for qualified capital expenditures. Eligible costs include land acquisition, predesign, design, construction, major remodeling (if it adds to the value or life of a building and is not of a recurring nature), and other improvements of a capital nature.

General operating expenses, overhead, master planning, maintenance, legal expenses, and personal property are not qualified expenses. Local grantees may not use their capital grant funds to pay for their own staff costs. Equipment is not eligible unless purchased and installed upon initial acquisition and construction of a building, expansion or major remodeling and needed for the public program to be operated in the project. Computers, software and other information technology expenditures are generally not eligible.

Expenses that are not qualified capital expenses must be paid from nonstate funds or may be paid from general fund cash if authorized by law.

Total Project Funding

Grantees may not access any of their grant funds until the commissioner of MMB has determined that there is sufficient funding committed to complete the project. This is the “full funding requirement” addressed in Minn. Stat. §16A.502 and 16A.695, subd. 6.

Demonstration of Full Funding

The grantee must demonstrate that all financing needed to complete the project has been received or a legally binding commitment is in place. This information must be submitted to and approved by the state granting agency and MMB before the grant agreement can be executed and the appropriation is activated in the state accounting system. Grantees will be required to document the total project cost (total capital costs) and identify the source and status of all funding.

It is important to note that the full funding requirement applies to a “project” as defined in the appropriation bill. For example, a grantee may request funds for predesign and design in one biennium and for construction in a later biennium. If the language in an enacted bill only says the appropriation is for predesign and design, the “project” is limited to predesign and design, and the full funding requirement applies only to the predesign and design costs. Grantees do not need to provide proof of full funding for project phases that are not included in the project’s authorizing language.

Non-State Match

Bonding bills, appropriation bills, other session laws, or statutory grant programs may require non-state matching funds as a condition of receiving a capital appropriation. Similarly, Minn. Stat. §16A.86 requires that at least half of the funding of most local government projects (not including school district projects) come from non-state sources, although the Legislature may waive this requirement and has done so in recent years. Non-state funding may include federal, local and private funds. All grantees must demonstrate that they have sufficient funding committed to complete the project, whether or not a matching requirement applies.

Non-state matching funds do not need to be deposited in the state treasury. Rather, the grantee must provide documentation that all non-state funds necessary to complete the project have been secured or are legally committed. The state agency making the grant may not release state funds until all matching funds are available and the demonstration of full funding has been approved by MMB.

Full Funding Documentation Requirements

Documentation of total project funding must be provided to the state granting agency. Upon approval by the granting agency, the information will be forwarded by the granting agency to Capital Bonding staff in the MMB Debt Management Division for final approval. (See Contact Information on page 24.)

The following sections describe the documentation requirements for various types of non-state matching funds.

Local Government Budgets and Resolutions

Local government funds can take the form of local bonds or can be documented through line items in approved local budgets and resolutions from local governing bodies. These resolutions must identify the specific source of funding committed to pay for the local share of project costs. Although a resolution of the local governing board is not a legally binding commitment, the grantee must legally obligate such funds as part of the subsequent grant agreement.

Non-Political Subdivision Grantee Budgets and Resolutions

Local grantees that are not political subdivisions of the state can demonstrate their share of funding for the project by providing an approved resolution from their governing board committing a specific source of funding to the project along with a copy of a bank statement demonstrating that those funds are available. If private contributions or other grant funds will be used to demonstrate full funding, documentation for those should be provided in the manner described in this chapter.

Federal Authorizations, Appropriations and Grant Letters

Federal funds can be documented through line items in approved federal budgets and grant award letters from federal agencies. Federal authorizations by themselves are insufficient; they must be accompanied by corresponding budget appropriations and a grant award letter in order to be considered binding federal commitments.

Private Contributions

Private pledges that have been received by the grantee and deposited into a segregated account can be documented through financial statements and reports along with a corresponding board resolution committing the funds from this account to the project. Private pledges that are not yet in hand but will be provided in installments over time should be handled as noted in the next section.

Funds Provided Over Time; Loans and Letters of Credit

Grantees should understand that pledges, promises, I.O.U.'s, or any other type of funding expected at a future date do not qualify as legally binding commitments for full funding. This includes multi-year pledges, anticipated local option sales tax revenue, and special assessments that have yet to be collected. Any funds that will be provided over time and are not yet in hand must be converted into cash or cash equivalent, such as through a loan or irrevocable letter of credit from a third party financial institution, in order to be considered committed for the purpose of full funding approval.

All capital funds must produce new or additional value in project assets. Loans or letters of credit supported by operating revenues rather than new contributions are not considered eligible matching funds because they do not improve the project balance sheet. In such cases, increased asset values on the balance sheet are offset by loan payable obligations.

In-Kind Contributions

Non-state matching funds in the form of in-kind contributions are rare and limited to instances where the authorizing law explicitly permits them. Documentation for in-kind contributions, when permitted by law, must include the name of the contributor, a description and the value of the contribution, and the details of how the value of the in-kind contribution or service was determined. The value of land or buildings donated to a project should be included when estimating total project costs and may be considered as part of a matching contribution if used exclusively for the purpose of the new capital project. The value of contributed land or buildings should be documented through an appraisal performed by a licensed appraiser.

It is common for projects to utilize multiple types of funding sources. Below is an example of a project which demonstrates total project funding and required documentation:

Johnstown Community Center Total Project Costs (total capital costs): \$3.5 million

Funding Sources	Amount	Documentation
State Funds	\$ 500,000	Authorized in the 2026 bonding bill (Laws of MN 2026, Chapter 130, Article 1, Section 90, subd. 5)
Federal Funds	\$ 250,000	Grant agreement with the U.S. Dept. of Housing and Urban Development dated 6/15/26
Local Funds	\$ 1,500,000	Official resolution authorizing the issuance and sale of bonds dated 8/4/26
	\$ 500,000	City Council Budget Resolution #xxx dated 12/31/26
Private Funds	\$ 600,000	Received and deposited into city account # xxx-xx
	\$ 150,000	Irrevocable letter of credit dated 6/20/26 from Wells Fargo Bank
Total Project Funding	\$ 3,500,000	

Operating Budget Review

The operating budget plan for facilities that are funded with a state capital grant, whether the project is funded from GO bond proceeds or general fund cash, must be reviewed and approved by the state granting agency.

Due to requirements in statute and law, the state needs assurances that grantees and operators have an adequate plan for operating and funding the public program in a facility funded with a state capital grant. Upon completion of the facility, the state expects the grantee or operator to maintain sufficient non-state funds to pay for ongoing operating costs of the public program or facility.

Commissioner's Determination

Minn. Stat. §16A.695, subd. 5 requires the commissioner of the granting agency to review the grantee's operating plan to determine that the organization can successfully carry out the public program and the operating plan of the bond financed project, and that it has, or will have, sufficient funds to do so. As such, the grantee will need to demonstrate to the granting agency that a program plan is in place to adequately finance the operations of the facility.

For most facilities operated by a public agency, a copy of that agency's operating budget or a resolution of its governing board that pledges to fund the public program is typically all that is needed.

If the facility's public program is particularly complex, or if the facility will be operated by a private or non-profit organization, the commissioner may ask the grantee or the non-governmental organization to provide projections covering a minimum of three years after the start-up date.

Budgeted expenditures and revenues, as well as the assumptions used in developing the financial statements, should be included. The grantee must explain why each assumption is valid.

The commissioner of the granting agency will use this information to make a determination as required under Minn. Stat. §16A.695, subd. 5.

On occasion, the complexity or context of a grant project and its operating program may be too difficult or unfamiliar for the granting agency to evaluate. For example, this may be true when the grant is for a local capital project that is outside of the granting agency's traditional policy area. In situations such as this, the agency is encouraged to contact MMB for assistance.

Predesign Review and Legislative Notification

Predesign is the project phase during which the purpose, scope, cost, and schedule of the complete project are defined and instructions to design professionals are produced. Preparation of a predesign is required for any partially or wholly state-funded capital projects that are subject to legislative consultation or notification. See Minn. Stat. §16B.335, Subds. 1, 2 and 3. Legislative consultation or notification is also required depending on the project type.

Predesign Preparation and Review

Predesign is meant to identify the anticipated scope, schedule, and cost of a capital project. Additional items that are statutorily required to be considered for local projects that receive state capital grants are detailed in the table on page 22. Predesign must be reviewed and approved by the Department of Administration before a project advances to design.

Recipients of state appropriations must use the Department of Administration's current Predesign Manual and Template when preparing their predesign report (link on page 23). Sources of all capital project funds and future operational funding should be included in any predesign. Consultants and local grantees should also review the B3 Sustainable Building guidelines (link on page 23) to determine project applicability and account for them in a predesign if required.

When a predesign is complete, local grantees should submit the document, including all appendices and required supporting documentation, to the Department of Administration's Real Estate and Construction Services division for review. The Department has ten working days for review and recommended approval. Failure to review and recommend a complete predesign within ten working days is considered a positive recommendation.

An approved predesign will be used when seeking legislative consultation or notification.

Predesigns and In-Process Local Projects

Local projects often receive state appropriations after other sources of funds have been used to advance project design, site work, or construction documents. For local grantees, this often creates mismatches with state predesign requirements and project timelines. In such circumstances, consult directly with the Department of Administration for recommended approaches.

Predesign questions may be directed to Eric Radel, Statewide Predesign Program Manager at the Department of Administration, Real Estate and Construction Division at (612)-201-2380, eric.radel@state.mn.us.

Legislative Recommendations and Notifications

Under Minn. Stat. §16B.335, Subds. 1 and 2, many projects require a legislative recommendation, while others merely need to provide legislative notification. After receiving predesign approval from the Department of Administration, a local grantee should prepare to follow these requirements as detailed below. Grantees may consult the Department of Administration on what legislative pathway is required for their project. Once required submissions have been made to the legislature, questions regarding legislative advisory recommendations or notifications should be directed to legislative staff for the committee chairs named in Minn. Stat. §16B.335.

Projects Requiring an Advisory Legislative Recommendation

Any local project that includes construction of a new building or substantial addition to an existing building, major remodeling, or land acquisition will require a local grantee to follow the legislative recommendation process if not otherwise exempt or subject to legislative notice requirements.

Local grantees should prepare a cover letter outlining their request for an advisory legislative recommendation under Minn. Stat. §16B.335, Subd. 1 along with a copy of their approved predesign and submit it to the Chairs of the Senate Finance Committee and House Ways and Means Committee, with copies to the Chairs and ranking minority members of the House and Senate Capital Investment Committees, no less than two weeks in advance of the needed recommendation.

Grantees should normally receive a letter from the legislative members regarding the recommendation before proceeding with the next phase of design. Legislative recommendations are advisory only. Although failure or refusal by the chairs to make a recommendation is considered a negative recommendation, there is no statutory restriction preventing the project from proceeding in the event the legislature does not respond

Projects Requiring Legislative Notification

While not all projects require a legislative recommendation, nearly all projects that receive a specific appropriation require local grantees to provide legislative notification when work is ready to begin. Applicants should review Minn. Stat. §16B.335, Subds. 1 and 2 for a detailed list of projects for which only legislative notification is required.

Local grantees should prepare a cover letter outlining the project scope, cost and anticipated schedule, along with a copy of their predesign or relevant design documents, for legislative notice under Minn. Stat. §16B.335, Subd. 2 and submit it to the Chairs and ranking minority members of the House Capital Investment and Ways and Means Committees and the Senate Capital Investment and Finance Committees at least two weeks in advance of work commencing.

The act of notification is sufficient to proceed with the project's next phase and no response from the legislature is required under statute.

MMB Approval of Use Agreements and Sales

Use Agreements

State statutes require the commissioner of MMB to review and approve use agreements for state bond financed projects that are publicly owned but operated by an entity other than the grantee. Similarly, for projects funded by general fund cash, those grantees will need to provide any use agreements to their granting agency for review, although MMB approval is not required.

A use agreement is a lease, management contract, or other similar contract between the entity that owns the land or facility and any entity which operates it. Minn. Stat. §16A.695 and the Commissioner's Order contain guidelines that must be followed when an entity other than the owner is involved with the operation of a bond financed project. Generally, this is accomplished by having the capital project owner enter into a use agreement with another entity to provide a public program within the project facility.

A state agency or political subdivision that enters into a use agreement with another organization must continue to be an active participant in the public program with ongoing oversight of the program. The public owner must be more than merely a fiscal agent with a one-time responsibility of passing the bond proceeds through a grant agreement to the operating organization. The owner cannot contract away their responsibility, but rather must be an active participant in the public program and monitor that the program is being implemented and run properly at the project site.

The commissioner of MMB must approve all use agreements for bond financed property, but MMB is not a co-signer to the agreement. The use agreement is exclusively a legal agreement between the owner of the facility and the user who will operate the facility and its public program. The public owner and the user normally jointly prepare the agreement. Grantees should consult with their appropriate legal advisors when navigating this process.

Prior to executing a use agreement for a project financed with GO bonds, the grantee should complete a G.O. Bonding Compliance Checklist for Use Agreements ([link on page 23](#)) and forward the checklist and a copy of the use agreement in draft form to MMB's Capital Bonding Coordinator for review. This checklist is intended to ensure compliance with applicable constitutional and statutory requirements, including IRS regulations relating to use of property financed with tax-exempt bond proceeds. In following this process, any changes to the use agreement which are necessary to comply with the checklist can be made before the use agreement is signed by the parties.

Sale of Project

All cash and bond financed capital projects must be used for the purpose identified in the legislative authorization for a time period equal to 125% of the useful life of the project. If the need for the project changes in the future and the grantee is contemplating a sale of the capital asset or facility within that time period, the grantee must comply with applicable sale and reimbursement procedures contained in Minn. Stat. §16A.695, the Commissioner's Order, and/or the grant agreement. Projects may be sold only if it is determined by official action that the property is no longer usable or needed by the owner to carry out the intent of the project.

Prior to closing on a sale of bond financed property, the grantee must complete a G.O. Compliance Checklist for Sale of G.O. Bond Financed Property ([link on page 23](#)) or follow the process for sales of the project in the grant agreement and forward the checklist or documentation outlined in the grant agreement to MMB's Capital Bonding Coordinator for review. This ensures compliance with applicable constitutional and statutory requirements, including IRS regulations relating to the disposition of property financed with tax-exempt bond proceeds. The sale must be made at fair market value with all or a portion of the net sale proceeds returned to the state. This may include the return of all state grant funds and a pro-rata portion of the facility's appreciated value.

Cancellation Report to the Legislature

Grantees must enter into a grant agreement with the state and the appropriation must be expended or encumbered within four years or the appropriation will be reported to the legislature and automatically cancelled.

Minn. Stat. §16A.642 requires the Commissioner of MMB to report to the chairs of the Senate Finance Committee, House Ways and Means Committee, and House Capital Investment Committee by February 1 of each year regarding projects with balances that have not been spent or legally obligated. This report identifies uncommitted balances of bond financed and general fund supported capital projects authorized more than four years earlier.

Capital appropriations that are not spent or encumbered within this statutory timeline are subject to being reported. Project balances that are reported by the commissioner are automatically canceled effective July 1 of the year of the report unless the Legislature specifically acts to reauthorize the project.

For example, capital grant funds authorized in 2026 must be spent or encumbered by December 31, 2030 or they will appear on the 2031 cancellation report to the Legislature. All balances in that report would automatically be cancelled on July 1, 2031, unless the Legislature takes action to grant an extension of time.

Statutes Applicable to Capital Projects

Statute	Required for these FUNDING RECIPIENTS?			
	State Agency	State Higher Ed	Political Subdivisions (GO Grants)	Local Grantees (Cash Grants)
§16A.502 – Full funding requirement	YES	YES	YES	YES
Matching funds requirement	See Appropriation	See Appropriation	See Appropriation	See Appropriation
§16A.695 - Use and grant agreements; sale of bond financed property	YES	YES	YES	See Grant Agreement
§16B.241 - Coordinated facility planning	YES	No	No	No
§16B.32, Subd. 1 - Alternative energy sources included as needed to meet Sustainable Building 2030 standards	YES	As required to meet B3	As required to meet B3	No
§16B.32, Subd. 1a - Renewable energy sources – may not exceed 120% of average annual electrical energy consumption	YES	Required if state building or facility	No	No
§16B.32, Subd. 2 - Energy conservation goals (not mandatory)	YES	YES	No	No
§16B.325 - Sustainable building guidelines (B3) apply to new buildings and major renovations §216B.241 - Sustainable Building 2030 requirements	YES	YES	YES	See Appropriation
§16B.327 - Recycling construction and demolition waste	YES	YES	No	No
§16B.33 - State Designer Selection Board	YES	YES	No	No
§16B.335, Subds. 1 & 2– Legislative recommendation/notification to House and Senate Committees	YES	YES	YES	YES
§16B.335, Subd. 3 - Predesign submittal to Dept. of Admin.; see statute for exempted projects	YES	YES	YES	YES
§16B.335, Subd. 4 - Energy conservation standards (MN Energy Code)	YES	YES	YES	YES
§16B.335, Subds. 5 & 6 - IT review by MN.IT	YES	No	No	No
§16B.335, Subd. 3c - Consider the use of MINNCOR products	YES	YES	YES	YES
§16B.35 - 1% for art when appropriation is \$500,000 or greater	Optional	Optional	Optional	Optional

Additional Information

- Minnesota Statutes sections referred to in this manual: <https://www.revisor.mn.gov/pubs/>
- State grant agreements and bond financed property checklists: <https://mn.gov/mmb/debt-management/capital-projects/grant-agreements/>
 - Grant agreement templates for projects financed with both general obligation and general fund cash for both earmarks and projects funded via state grant programs
 - Bond financed property checklists for (1) use agreements, (2) ground leases and easements, and (3) sales.
- Legal information regarding the use of general obligation bonds and bond financed property: <https://mn.gov/mmb/debt-management/capital-projects/legal-information/>
 - *Fourth Order Amending Order of Commissioner of Finance* dated July 30, 2012
 - Bond counsel opinions on qualified capital expenditures
- Predesign Manual for Capital Budget Projects: <https://mn.gov/admin/government/construction-projects/manuals-guidelines-forms/guidelines/>
- B3 Guidelines: <https://b3mn.org/guidelines/>
- Capital budget instructions for agencies, local governments, and nonprofits and Tribal governments: <https://mn.gov/mmb/budget/budget-instructions/capbud/>

Contact Information

Questions about any of the requirements contained in this manual can be directed to staff in MMB's Debt Management Division. Please note that when sending questions to MMB staff, grantees should also copy their agency grant manager.

Contacts

Roger Behrens, Capital Bonding Coordinator, (651) 201-8131 roger.behrens@state.mn.us

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