

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

Objective:

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

Definitions:

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

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

Policy:

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

Criteria for Reporting Format:

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

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

Policy Implementation:

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

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

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

Effective Date of Policy:

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

Contacts:

Jen Hassemer, Assistant Commissioner, (651) 201-8079

Trudy Halla, Capital Bonding Coordinator, (651) 201-8131

Liz Connor, Capital Budget Coordinator, (651) 201-8041

ADDENDUM
Capitalizable Staff Costs – Guiding Principles

In response to questions MMB has received regarding what is a capitalizable staff cost under generally accepted accounting principles, the following table provides some general direction. If a specific scenario is not covered in these examples, consult with your agency’s capital asset coordinator. Please refer to the formal policy for all rules that apply to the use of general obligation bond proceeds for costs of staff directly working on a capital project.

ALLOWABLE STAFF COSTS	Examples
Staff time spent actively delivering a capital project	<ul style="list-style-type: none"> • Performing construction activities • Working as a project manager • Overseeing compliance with construction contract or other project-specific requirements
NON-ALLOWABLE STAFF COSTS	Examples
Staff time spent on pre-planning activities (before funding decisions are made or before project is sited)	<ul style="list-style-type: none"> • Site selection activities • Preparing grant applications and requests for proposals • Reviewing requests for funding
Staff time spent developing and monitoring the grant agreement and other post-construction activities	<ul style="list-style-type: none"> • Drafting grant agreements • Processing grant payments • Post-completion audits or monitoring
DEPENDS ON FACTS	Examples
Discuss situations not addressed above with agency capital asset coordinators to determine if a particular cost is properly capitalizable under GAAP, or with MMB	<ul style="list-style-type: none"> • Travel costs <ul style="list-style-type: none"> ○ Would the project not be acquired or constructed “but for” the travel? ○ Would the salary of the travelling person be an allowable “staff cost” under MMB’s policy? • Technical assistance and audits <ul style="list-style-type: none"> ○ Not allowable if ancillary to delivery of project