



Capital Budget Requirements Guide for State Agencies and Local Units of Government

May 2025

Overview

This guide lists key requirements for projects enacted in a capital investment bill. It is a resource for state agencies and political subdivisions, including local units of government, who are seeking a capital appropriation or grant from the state to identify applicable requirements and access existing resources that provide more detailed information.

To utilize this document:

- Thoroughly read through the listed requirements.
- Identify applicable requirements.
- Open the linked documents and resources and review each requirement in more detail.
- Note: While the [Capital Grants Manual](#) is directed towards local units of government and the [After the Bonding Bill](#) document is directed towards state agencies, both are helpful resources for all requesters.

This document was developed for educational purposes and provides a thorough, but not exhaustive, overview of state capital budget requirements. It does not supersede statutes, grant agreements, or the policies and procedures adopted by state agencies. State agencies and grantees, meaning recipients of capital budget grants, that are noncompliant with requirements may be required to return funds to the state.

State agencies and local governments seeking an appropriation or grant from the state for a capital project are required to review this document before submitting a funding request to Minnesota Management and Budget (MMB). Detailed instructions for submitting capital budget requests are available on MMB's website:

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

Requirements Overview

State General Obligation Bond Foundational Requirements

- All state appropriations and grants financed from general obligation (GO) bonds must follow the requirements of the Minnesota Constitution. Projects utilizing this funding source must be publicly owned and for a public purpose, be a clearly defined project, and be for qualified capital expenditures. Grants or loans for capital projects from bond proceeds cannot be made directly to nonprofit or for-profit organizations, to Tribal governments, or to the federal government.
- Resource: [Capital Grants Manual, "Qualified Capital Expenditures"](#); [After the Bonding Bill, "Public Ownership, Public Purpose, and Use Agreements for State-Funded Projects"](#); [MN Const., Article XI, Sec. 5](#)

Public Ownership to meet GO Bond Requirements

- Public ownership must have a term of at least 125% of the useful life of the project and can be a fee simple ownership interest of the project (the owner in the title records), or, alternatively, a ground lease (a long-term lease) or easement interest that cannot be terminated early. A draft lease or easement must be submitted to MMB prior to its execution together with MMB's [Checklist for Ground Leases and Easements](#) for approval.
- Resources: [Capital Grants Manual, "Qualified Capital Expenditures"](#); [After the Bonding Bill, "Public Ownership, Public Purpose, and Use Agreements for State-Funded Projects"](#); [Checklist for Ground Leases and Easements; MS 16A.695, Subd. 7](#)

Qualified Capital Expenditures

- GO bond-funded appropriations and general fund cash appropriations that 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 or acquisitions of tangible fixed assets of a capital nature. Political subdivisions, private entities, and Tribal governments cannot use capital budget grant funding to cover internal staff costs or staff time expended on capital projects funded by the state.
- Resource: [Capital Grants Manual, “Qualified Capital Expenditures”](#); [After the Bonding Bill, “Qualified Capital Expenditures”](#); [MN Const., Article XI, Sec. 5](#); [MS 16A.695](#)

Use Agreement

- A state agency or political subdivision may contract with another entity, including a private organization or a Tribal government, to operate the public program in the facility but must retain ownership of the project. The public entity that enters into a use agreement with the private organization must be an active participant in the public program and have ongoing oversight of the program. Use agreements cannot be for more than 50% of the facility’s useful life but can be renewed or extended. A draft use agreement must be submitted to MMB prior to its execution together with MMB’s *Checklist for Use Agreements* for approval.
- Resource: [Capital Grants Manual, “Management and Budget Approval of Use Agreements”](#); [After the Bonding Bill, “Public Ownership, Public Purpose, and Use Agreements for State-Funded Projects”](#); [Checklist for Use Agreements](#); [Capital Budget Funding Pathways and Requirements for Nonprofits and Tribal Governments](#); [MS 16A.695, Subd. 2 & 7](#)

General Fund-Financed Projects

- Projects financed with state general funds do not require public ownership, therefore, nonprofits and Tribal governments are eligible grantees. However, some requirements that apply to GO bond-financed projects also apply to general fund appropriations.
- Resource: [Capital Grants Manual, “Qualified Capital Expenditures”](#); [Capital Budget Funding Pathways and Requirements for Nonprofits and Tribal Governments](#)

Minnesota Management and Budget Requirements

Grant Agreement

- Grantees must enter into a grant agreement with the state granting agency assigned to their project before receiving any state money.
- Resource: [Capital Grants Manual, “Preparation of Grant Agreements”](#); [After the Bonding Bill, “Standard State Grant Agreements”](#); [Grant Agreements Webpage](#); [MS 16A.695, Subd. 9](#)

Full-Funding Requirement

- State agencies and grantees must document that all project funding has been received or that a legally binding commitment is in place for those funds before a grant agreement can be signed and funds released.
- Resource: [Capital Grants Manual, “Total Project Funding”](#); [After the Bonding Bill, “Capital Appropriations with Non-State Matching Requirements”](#); [MS 16A.502](#); [16A.695, Subd. 5 & 6](#)

Matching Funds

- It is the standard for local projects to provide at least a 50% match of state funds from non-state sources unless otherwise specified.
- Resource: [Capital Grants Manual, "Total Project Funding"](#); [After the Bonding Bill, "Capital Appropriations with Non-State Matching Requirements"](#); [MS 16A.695, Subd. 6](#); [16A.86, Subd. 4](#)

GO Bond Reimbursement for Funds Spent Before Appropriation

- Due to federal tax law, state GO bonds cannot be used to reimburse expenses paid before the effective date of the capital investment bill.
- Resource: [After the Bonding Bill, "Reimbursing Agencies or Local Governments"](#)

General Fund Reimbursement for Funds Spent Before Appropriation

- While rare, state agencies may, in their sole discretion and judgement, allow reimbursement for capital project costs paid before the effective date of the capital investment bill. If the grantee does not seek or obtain reimbursement for these early costs, these early costs can count toward any matching-fund requirements and for the full-funding requirements of the project. However, until state funds are appropriated, and a grant agreement is entered into, the grantee begins work at its own risk and is responsible for understanding and complying with all applicable public contracting rules such as prevailing wage, sustainability, and other state contractual requirements.

Money Received in a Lease, Management Contract, or Other Agreement that Requires a Payment to the Recipient of General Obligation Bond Funds

- Capital projects funded by state GO bonds have restrictions on the amount of money that can be received in a lease, management contract, or other agreement (i.e. naming rights) and for what that money can be used.
- Resource: [Checklist for Use Agreements](#); [MS 16A.695, Subd. 2](#)

Maintain Program for 125% Useful Life

- The program or purpose of the facility must be maintained for 125% of the useful life of the capital project as determined by the project's engineer or architect.
- Resource: [Capital Grants Manual, "Qualified Capital Expenditures"](#); [MS 16A.695, Subd. 7](#)

Real Estate Declaration and First Lien Position

- State agencies and grantees are required to have a declaration recorded against real estate that is purchased or improved with state capital budget funding. This declaration must be in a first lien position on the property and all mortgage lenders must be subordinate to the declaration.
- Resource: [Capital Grants Manual, "Preparation of Grant Agreements"](#); [After the Bonding Bill, "Tracking Bond Financed Property"](#); [MS 16A.695, Subd. 3](#)

Sale

- State agencies and grantees cannot sell property improved by state capital budget funds, unless the state agency or grantee follow specific requirements. Sale proceeds must first be used to repay the state.

- Resource: [Capital Grants Manual, “Qualified Capital Expenditures”](#); [Fourth Order Amending Order of Commissioner of Finance Relating to Use and Sale of State Bond Financed Property](#); [Checklist for Sale of GO Property](#); MS 16A.695, Subd. 3

Program Default

- State agencies and grantees are responsible for the operation of the capital project for the program identified in the legislation. If they fail to do so, the state may demand that the portion of the grant already disbursed be returned.
- Resource: [Capital Grants Manual, “Management and Budget Approval of Use Agreements”](#); MS 16A.695

Cancellation After Four Years

- Capital budget appropriations and grants that are not expended or encumbered within four years of the enacted bill will be reported to the legislature and automatically cancelled, unless re-authorized by the legislature.
- Resource: [Capital Grants Manual, “Cancellation Report to the Legislature”](#); [After the Bonding Bill, “Project Cancellations”](#); MS 16A.642;

Minnesota Management and Budget Requirements: *Additional Political Subdivision Grant Requirements*

No Advance Payments

- State granting agencies will not advance funds to grantees before a signed grant agreement is in place, under any circumstances.
- Resource: [Capital Grants Manual, “Preparation of Grant Agreements”](#)

Operating Budget Review

- The operating budget plan for facilities that are state bond financed must be reviewed and approved by the state granting agency.
- Resource: [Capital Grants Manual, “Operating Budget Review”](#); [After the Bonding Bill, “Operating Program Review of Grantees for Bond Financed Facilities”](#); MS 16A.695, Subd. 5

Annual Statement, Facility Inspection, and Record Maintenance

- A grantee is required to annually supply a notarized statement to their state granting agency that the property is being used and operated in accordance with the grant agreement; allow the state to inspect the facility; and maintain records of expenses available to the state upon request.
- Resource: [After the Bonding Bill, “Post-Issuance Compliance Guidelines and Internal Controls”](#); [Grant Agreements Webpage](#)

Department of Administration Requirements

Department of Administration Predesign Review and Approval

- State agencies and 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.
- Resource: [Admin Predesign Manual & Additional Predesign Guidelines Webpage](#); MS 16B.335, Subd. 3

Design Review by Legislative Chairs

- Program plans and cost estimates of certain capital projects must be reviewed by certain legislative committee chairs and ranking minority members before preparation of construction plans and specifications.
- Resource: [Capital Grants Manual, "Predesign and Design Review"](#); [MS 16B.335, Subd. 1 & 2](#)

Percent for Art Allotment

- Projects for major renovations or new construction receiving more than \$500,000 in state funding may use up to one percent of a state capital appropriation to obtain works of art in public spaces of the building or its grounds via a process administered by the Minnesota State Arts Board.
- Resource: [Minnesota State Arts Board Percent for Art Webpage](#); [MS 16B.35](#)

Energy Conservation Standards

- State agencies and grantees of state capital improvement funding must ensure that the project follows applicable energy conservation standards.
- Resource: [MS 16B.335, Subd. 4](#)

Sustainable Building Guidelines

- All state agencies and grantees of general obligation bonds for new construction or major renovation projects are required to follow sustainable building (B3) guidelines.
- Resource: [B3 Guidelines Website](#) ; [MS 16B.325](#)

Responsible Contractor

- A contractor must meet state minimum criteria to be eligible to receive a construction contract as the lowest responsible bidder or the vendor or contractor offering the best value.
- Resource: [MS 16C.285](#)

Targeted Group Purchasing

- State-funded capital projects over \$100,000 must promote the use of targeted businesses, which are owned and operated by women, individuals with disabilities, or members of specific minority groups.
- Resource: [After the Bonding Bill, "Targeted Group Business"](#); [MS 16C.16, Subd. 13](#)

Consideration of MINNCOR Products

- All predesign, design, and construction projects shall include consideration of the state of Minnesota's correctional industries program, MINNCOR Industries.
- Resource: [MINNCOR Website](#); [MS 16B.335, Subd. 3c](#)

Department of Administration: *Additional State Agency Requirements*

State Designer Selection Required for Larger Projects

- State agencies must submit a written request for a primary designer to the Department of Administration for most capital projects with estimated costs greater than \$4,000,000 or a planning project with estimated fees greater than \$400,000. This statute does not apply to asset preservation projects or the Capitol Area Architectural and Planning Board.

- Resource: [MS 16B.33](#)

Alternative Energy Sources Must Be Used to Meet Energy Standards

- State-owned buildings and facilities must implement cost-effective renewable energy sources and/or solar thermal energy systems to meet Sustainable Building 2030 energy performance standards if the cost-effective energy efficiency measures implemented to meet B3 Guidelines are not sufficient.
- Resource: [MS 16B.32, Subd. 1](#)

Renewable Energy Sources Thresholds

- The total renewable energy sources utilized to meet Sustainable Building 2030 standards in a state-owned building or facility may not exceed 120 percent of the average annual electrical energy consumption of the state-owned building or facility.
- Resource: [MS 16B.32, Subd. 1a](#)

Recycling Construction and Demolition Waste Requirements

- Capital projects of buildings owned or leased by a state agency must recycle at least 50 percent of the nonhazardous construction and demolition waste. Please note that B3 Guidelines require that 75 percent of nonhazardous construction and demolition waste is recycled.
- Resource: [MS 16B.327](#)

MNIT Technology Review

- State agency requests for construction and remodeling funding must include money for cost-effective information technology investments that would allow an agency to reduce its need for office space, provide more of its services electronically, and decentralize its operations.
- Resource: [Agency Capital Budget Instructions “Appendix 4 – Information Technology”](#); [MS 16B.335, Subd. 5 & 6](#)

Coordinated Facility Planning for Select Agencies

- The commissioner of administration must develop a coordinated facility planning process for offices located outside the metropolitan area for the Departments of Health, Agriculture, and Natural Resources; the Pollution Control Agency; and the Board of Water and Soil Resources.
- Resource: [MS 16B.241](#)

Department of Labor and Industry Requirements

Prevailing Wage

- When applicable by law, state agencies and grantees must comply with prevailing wage requirements for construction or public work projects funded in whole or in part by state funds.
- Resource: [Prevailing Wage Information Webpage](#); [MS 177.42-44](#)

Department of Human Rights Requirements

Workforce Certificate

- Capital projects funded by state general obligation bonds must comply with the Minnesota Department of Human Rights' workforce certificate requirements for public contracts.

- Resource: [MDHR Workforce Certificate Webpage](#); [MS 363A.36](#)

Equal Pay Certificate

- Capital projects funded by state general obligation bonds must comply with the Minnesota Department of Human Rights' equal pay certificate requirements for public contracts.
- Resource: [MDHR Equal Pay Certificate Webpage](#); [MS 363A.44](#)

Historic and Archaeological Properties

- State law requires state agencies and grantees to consider the potential impacts that state-assisted projects may have on historic and archaeological properties and consult with the State Historic Preservation Office (SHPO), Office of the State Archaeologist (OSA), and the Minnesota Indian Affairs Council (MIAC) as necessary to identify and avoid adverse impacts to significant historic and archaeological properties.
- Resource: [Local Units of Government or Agency Capital Budget Instructions “Other Requirements Not Listed in CBS”](#); [MS 307.08, Subd. 10](#); [MS 138.666](#); [MS 138.665, Subd. 2](#); [MS 138.40, Subd. 3](#)

Metropolitan Council

Guideway Projects

- Any requests for state funds for a guideway project (as defined in statute) must submit a financial plan for the project to the legislature.
- Resource: [MS 473.4485](#)

Resources

- [Capital Budget Instructions Webpage](#)
 - Discusses capital budget deadline dates, preparation of capital budget requests, and requirements for state agencies, political subdivisions, and nonprofits and Tribal governments.
 - <https://mn.gov/mmb/budget/budget-instructions/capbud/>
- [Capital Grants Manual](#)
 - Highlights the steps grantees must follow to receive state capital grants, whether from state bond funds or the state general fund. It is primarily intended to describe the steps required after a capital budget request has been submitted and after the Legislature has approved an appropriation for a project or grant program.
 - <https://mn.gov/mmb/debt-management/capital-projects/capital-grants-manual/>
- [After the Bonding Bill](#)
 - Gives an overview of the key constitutional, statutory and other legal and administrative requirements as to how bonding appropriations may be spent. This memo is intended for state agency recipients of state capital appropriations and is updated every two years following passage of the bonding bill by the Legislature.
 - <https://mn.gov/mmb/debt-management/capital-projects/after-the-bonding-bill/>
- [Capital Budget Funding Pathways and Requirements for Nonprofits and Tribal Governments](#)
 - Outlines the two pathways a nonprofit or Tribal government can take to access or benefit from state capital budget funding and provides a list of what each pathway requires.
 - <https://mn.gov/mmb-stat/documents/budget/budget-instructions/capital-budget/nonprofits-and-tribal-governments/funding-pathways-and-requirements-checklist.pdf>
- [Fourth Order Amending Order of Commissioner of Finance](#)
 - Discusses the requirements associated with the use and sale of state bond-financed property.
 - https://mn.gov/mmb/assets/fourth-order_tcm1059-127605.pdf
- [Checklist for Sale of GO Property](#)
 - A checklist to assist in determining if the sale of a project complies with all the provisions contained in and imposed by the GO Bonding Law, the Commissioner's Order, and other applicable statutes and laws. This checklist should be completed and submitted to MMB along with the specific details of the sale.
 - <https://mn.gov/mmb/debt-management/capital-projects/grant-agreements/checklists.jsp>
- [Checklist for Ground Leases and Easements](#)
 - A checklist when a ground lease or easement is part of a GO bond-financed project, to determine if it complies with the GO Bonding Law, the Commissioner's Order, and other applicable statutes and laws. This checklist should be completed and submitted to MMB along with a copy of the proposed ground lease or easement.
 - <https://mn.gov/mmb/debt-management/capital-projects/grant-agreements/checklists.jsp>
- [Checklist for Use Agreements](#)
 - A checklist to determine if a lease or management agreement for a project complies with all the provisions contained in and imposed by the GO Bonding Law, the Commissioner's Order, and other applicable statutes and laws. This checklist should be completed and submitted to MMB along with any lease or management agreement that needs to be reviewed and approved by the Commissioner.
 - <https://mn.gov/mmb/debt-management/capital-projects/grant-agreements/checklists.jsp>

- [General Fund Grant Agreements](#)
 - Generic general fund grant agreements and other supporting documents that have been developed for state agencies to use when the agency is making a grant to an entity for a capital budget project. Every state agency which uses appropriated funds from the State's general fund for a project must enter into a grant agreement with the grant recipient.
 - <https://mn.gov/mmb/debt-management/capital-projects/grant-agreements/general-funds-grant-agreements-instructions.jsp>
- [General Obligation Bonds Grant Agreements](#)
 - Generic general obligation grant agreements and other supporting documents that have been developed for state agencies to use when the agency is making a grant to a public entity for a project that will be funded in whole, or in part, with the proceeds of State of Minnesota general obligation bonds. Every state agency that uses the proceeds of general obligation bonds to fund a grant to another public entity must enter into a grant agreement with the public entity that receives the grant.
 - <https://mn.gov/mmb/debt-management/capital-projects/grant-agreements/grant-agreements-go-bonds.jsp>
- [Department of Administration Predesign Manual & Additional Predesign Guidelines](#)
 - Provides predesign guidelines for state-managed construction projects including their Predesign Manual detailing the predesign process and requirements. Grantees must prepare predesign documents on most capital projects, which includes the purpose, scope, cost, schedule of the complete project, and instructions to design professionals.
 - <https://mn.gov/admin/government/construction-projects/manuals-guidelines-forms/guidelines/>
- [Department of Administration Applicable Statutes Table – GO Bonds](#)
 - Breaks down which capital budget statutes apply to which entities in a table format for general obligation-funded capital projects.
 - https://mn.gov/admin/assets/Applicability_Statutes_Bond%20Funds_tcm36-604337.pdf
- [Department of Administration Applicable Statutes Table – General Fund](#)
 - Breaks down which capital budget statutes apply to which entities in a table format for general fund-funded capital projects.
 - https://mn.gov/admin/assets/Published_2024_05_31_Applicability_Statutes_Cash_v4_05312024_tcm36-626015.pdf
- [MINNCOR Website](#)
 - Department of Corrections' website on MINNCOR Industries, which provides premium manufactured goods and services to government entities, educational institutions, nonprofit organizations, and private sector companies in Minnesota. The website includes a list MINNCOR products that all grantees must consider utilizing for their capital project.
 - <https://www.minncor.com/>
- [Minnesota State Arts Board Website](#)
 - Minnesota State Arts Board's webpage on the Minnesota Percent for Art in Public Places program. Provides background, examples, and process for utilizing the one percent art allotment for projects receiving more than \$500,000 in state funding.
 - <https://www.arts.state.mn.us/other/percent.htm>
- [Prevailing Wage Information Website](#)
 - Department of Labor and Industry's website detailing prevailing wage information. When applicable by law, grantees must adhere to prevailing wages on all state-funded construction projects.
 - <https://www.dli.mn.gov/business/employment-practices/prevailing-wage-information>

- [B3 Guidelines Website](#)
 - Includes information on B3 tools and programs that are designed to help make buildings more energy efficient and sustainable. The B3 programs have been developed for and are required on State general obligation bond-funded projects in Minnesota, however they are easily applied to any project.
 - <https://www.b3mn.org/>
- [Workforce Certificate Website](#)
 - Department of Human Rights' website detailing the purpose, requirements, and process to apply for a Workforce Certificate. Contractors selected for a capital project funded entirely, or in part, by General Obligations (GO) bonds by a city, political subdivision, or the University of Minnesota may be required to have a Workforce Certificate.
 - <https://mn.gov/mdhr/certificates/workforce-certificate/>
- [Equal Pay Certificate Website](#)
 - Department of Human Rights' website detailing the purpose, requirements, and process to apply for an Equal Pay Certificate. Contractors selected for a capital project funded entirely, or in part, by General Obligations (GO) bonds by a city, political subdivision, or the University of Minnesota may be required to have an Equal Pay Certificate.
 - <https://mn.gov/mdhr/certificates/equalpay/>