

SF52 - 0 - "State Aid Clarification for the DMC"

Chief Author: **Rod Skoe**  
 Committee: **Taxes**  
 Date Completed: **01/09/2015**  
 Agency: **Employment & Economic Dvlpmt**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2015	FY2016	FY2017	FY2018	FY2019
General Fund	-	-	-	-	5,593	11,185
<b>Total</b>	-	-	-	-	<b>5,593</b>	<b>11,185</b>
<b>Biennial Total</b>				-		<b>16,778</b>

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2015	FY2016	FY2017	FY2018	FY2019
General Fund	-	-	-	-	-
<b>Total</b>	-	-	-	-	-

**Executive Budget Officer's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

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## State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		Biennium			Biennium	
Dollars in Thousands		FY2015	FY2016	FY2017	FY2018	FY2019
General Fund		-	-	-	5,593	11,185
<b>Total</b>		-	-	-	<b>5,593</b>	<b>11,185</b>
<b>Biennial Total</b>			-		<b>16,778</b>	
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund		-	-	-	5,593	11,185
<b>Total</b>		-	-	-	<b>5,593</b>	<b>11,185</b>
<b>Biennial Total</b>			-		<b>16,778</b>	
<b>2 - Revenues, Transfers In*</b>						
General Fund		-	-	-	-	-
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>			-		-	

## Bill Description

Relating to the Destination Medical Center; clarifying the computation of state aid payments; amending Minnesota Statutes 2014; sections 469.40, subdivision 11; 469.44, subdivision 5; 469.47, subdivisions 1,3,4,5.

The City of Rochester is required to provide a local matching contribution of \$128 million on public infrastructure projects. The amended language would allow preparation and modification of the development plan to be a public infrastructure project. These expenses could be credited as a contribution or qualify for state aid.

The amended language clarifies the computation of state aid payments. State aid payments are calculated by multiplying total qualified expenditures each year by the multiplier (the 2.75% for general infrastructure aid and the 0.75% for the transit aid) minus an initial \$200 million deduction.

The bill also clarifies that development plan costs are eligible as qualified City match. Previously it was interpreted that these costs were not allowable as City match.

## Assumptions

In 2013, a total of \$7 million was certified as qualified expenditures. While 2014 expenditures are not yet known, DEED is assuming that approximately \$193 million was spent during the calendar year and could be deemed qualified by staff. This would satisfy the \$200 million base figure for investment prior to any state aid payments.

For calendar year 2015, DEED is assuming that approximately \$175 million will be invested and could be qualified expenditures. The DMC has publicly stated that expenditures of approximately \$875 million will occur from 2015- 2019. We assumed these calendar years have a linear investment schedule.

DMC estimates public infrastructure investment from 2015-2019 to be \$40-60 million and transit aid to be \$10-15 million. Based on the investment approach inferred by the DMC budget documents, the state would be paying out approximately \$34 million through fiscal year 2019.

Since we believe the \$200 million threshold will be met but not exceeded in 2014, state aid payments could occur as soon as FY 2017. Thus, investments made in 2015 will be paid, by September 1, 2016 or, FY 2017.

The November 2014 Forecast, based on language in Minn. Stat. 469.40 469.47, forecasts state aid payments of

\$5,592 million in FY 2017, 2018 and 2019. The statutory changes this legislation prescribes represent the increase in state

aid payments above the forecasted amount.

This bill would expand the potential city match to include dollars spent on developing the plan. This change could accelerate state aid payments, provided the private investment is in place. This does not change the estimation of state aid payments, as DEED assumes the city match will be there regardless of this change.

This bill does not change the immediate staffing requirement on DEED but may shorten the timeframe of administration. DEED maintains the need for resources to perform its responsibilities as outlined in Article 9 Destination Medical Center, including planning necessary to implement the Destination Medical Center project.

By February 15, 2015, the Corporation and City must release a report that details future investment.

**Expenditure and/or Revenue Formula**

DEED on an annual basis will have to review qualified expenditures of the medical business entity. The state infrastructure aid will not be paid out until total qualified expenditures exceed \$200 million. DEEDs review period is from April 1 to August 1 of each year, over a 30 year period. DEED will annually calculate the infrastructure aid by determining the total qualified expenditures and multiplying them by 2.75%. In order to qualify for general state infrastructure aid, the city must enter a written agreement with DEED that requires the city to make a qualifying local matching contribution of \$128 million of the cost of public infrastructure projects. This agreement will provide for manner, timing, and amounts of the city contributions, including the citys commitment for each year. This agreement can be amended at any time in light of new information or other appropriate factors. If DEED determines that the city has made the required matching local contribution for infrastructure, DEED shall authorize payment to the city the amount of general state infrastructure aid for the year by September 1. DEED, in consultation with the commissioner of management and budget and representatives of the authority, shall establish a total limit on the amount of state aid payable for infrastructure that is sufficient, in combination with the local contribution to pay for the \$455 million of general public infrastructure projects. Total state infrastructure aid per year is limited to \$30 million. DEED, in consultation with the commissioner of management and budget, shall establish a total limit on the amount of state transit aid payable that is sufficient, in combination with the local contribution to pay for \$116 million of transit projects. Maximum state transit aid is \$7.5 million per year.

Destination Medical Center State Aid					
1/7/2015					
			2.75%	0.75%	
Expend Year (calendar year)	Aid Paid (Fiscal Year)	Qualified Expenditures in excess of \$200 million	General Infr. Aid	Transit Aid	Total Aid
2013	FY 2015	-	-	-	-
2014	FY 2016	-	-	-	-
2015	FY 2017	174,760,000	4,805,900	786,420	5,592,320
2016	FY 2018	349,520,000	9,611,800	1,572,840	11,184,640
2017	FY 2019	524,280,000	14,417,700	2,359,260	16,776,960

**Long-Term Fiscal Considerations**

This bill would expedite aid payments and would not likely require DEED to make state aid and transit payments through 2049. Provided the city match is in place, all state infrastructure aid could be paid as early as 2027. Funding for DEED administration may not be needed after all state infrastructure aid is paid.

### **Local Fiscal Impact**

The City of Rochester match is a maximum of \$128 million. This bill allows the city to claim expenses for the preparation of the development plan as match and could accelerate the timing of state infrastructure aid payments. The city and county local match for transit payments is the sum of qualified expenditures multiplied by 0.75%, reduced by the amount of local contribution. The City's match must be expended within a 20 year timeframe.

### **References/Sources**

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