



State Representative Alice Hausman

State bonding decisions have major implications for Minnesota's competitiveness

A Civic Caucus Focus on Competitiveness Interview

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Present

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Summary

According to Minnesota State Rep. Alice Hausman, the House Capital Investment Committee gets \$3 billion to \$4 billion in bonding requests each year, from state higher education institutions, local governments and state agencies. The state's debt capacity policy requires that all types of state debt must not exceed 3.25 percent of the state's personal income.

Hausman contends that as the economy has changed, what Minnesota has to invest in has changed. She says we can no longer think of arts and culture and parks and trails as amenities and frills, because those things attract workers, keep workers and help the state stay economically competitive.

Stressing the costs of homelessness to the state and its role in the achievement gap in preK-12 education, Hausman says this year's bonding bill will include \$100 million for permanent housing for people who are homeless. And noting that the state's higher education systems currently have an incentive to get the state to bond for repair and renovation of their buildings, she says the state should, instead, pay up-front for higher education buildings and the systems should pay to maintain and operate them.

Biography

State Rep. Alice Hausman (DFL-St. Paul) was first elected to the Minnesota House of Representatives in 1989 and is currently serving her 13th term. She is chair of the House Capital Investment Committee and also serves on the following committees: Legacy, Transportation Finance, Ways and Means, and the Select Committee on Veterans' Housing. She has a B.S. degree in

education from Concordia College in Seward, Neb., and an M.A. degree in education from Concordia College in River Forest, Ill.

Issues to address:

Prior to the meeting, Hausman was asked to prepare to address the following issues: how infrastructure investments affect the state's economy and competitiveness, how states' bonding processes differ, who should pay for maintenance and operation of higher education buildings and how priorities are determined among bonding proposals.

Discussion

In any given year the Minnesota House Capital Investment Committee gets \$3 billion to \$4 billion in bonding requests. "We say 'no' to more proposals than we fund," State Rep. Alice Hausman, chair of the committee, said.

A bonding bill is harder to pass than anything else. "It's easy to play politics with bonding," Hausman said. "Every other budget bill requires just a simple majority, but the bonding bill requires a super majority: 81 votes out of 134 members in the House."

Appropriation bonds are high-cost debt. Hausman noted that general obligation bonds are backed by the full faith and credit of the state. Trunk highway bonds, she said, are "a good investment," because they're backed by revenue from the gas, motor vehicle sales and auto license taxes. But appropriation bonds are not backed by the full faith and credit of the state, because they require that the Legislature appropriate money every year to pay the debt service. The \$468 million in bonds issued by the state for the new Vikings stadium are appropriation bonds.

"It's higher-cost debt," Hausman said, "because there's a risk: what if the Legislature doesn't appropriate it? Then we default and the state has a bad credit rating. I think we should severely limit appropriation bonds. I think we should say that no more than 1.5 percent of our debt should come from them."

She said the state began using appropriation bonds when Tim Pawlenty was governor. He wanted to use Tobacco Securitization Bonds to balance the budget by bonding \$1 billion and using the future revenue streams of the tobacco lawsuit to pay for it. "We succeeded in saying 'no' to that at the time," she said. "But in 2011-2012, the Legislature passed it as a way of balancing the budget and the Minnesota Department of Management and Budget (MMB) converted those bonds to appropriation bonds."

The state's current debt capacity policy is 3.25 percent of the state's personal income. "When Rudy Perpich was governor, he said the state's total debt should not exceed three percent of the general fund, which we lived with for a number of years," Hausman said. "But that's not terribly helpful for ratings agencies and bond houses, because states are different in what they include in the general fund. So when Pawlenty was governor, he changed the debt capacity policy to 3.25 percent of personal income. That's something you can compare from state to state."

All types of debt are included in this measurement, not just general obligation bond debt. "So now the higher-risk types of debt compete with general obligation bonding," she said, "even though the

general obligation bonding bill does all the core-value stuff: higher education, wastewater infrastructure, local roads and bridges, ports, public safety and corrections, natural resources, all of the agency stuff and what builds our state."

"We are a responsible state in terms of the level of our debt," she said. As of November 2012, the state's total tax-supported debt of \$6.9 billion was 2.74 percent of state personal income.

The economy has changed and what Minnesota has to invest in has changed. "The bonding bill in 2014 should look different from the one we wrote in 1972," Hausman said, "because the economy has changed and what we have to invest in has changed. In the old economy, the knowledge worker, often the demographic from age 24 to 36 that business and industry desperately need and want, used to move to where the jobs were. Today young people decide first where they want to live based on amenities, such as arts and culture, natural resources, parks and trails, and transit corridors. Then they figure out how they're going to make a living. It's a different way of thinking about where you live and work."

"That means we have to change how we invest," she continued. "We used to think of arts and culture and parks and trails as amenities and frills. But today everybody understands that's how we attract workers, keep workers and stay economically competitive."

There's a regional debate between the metro area and Greater Minnesota. "There's somehow a belief in Greater Minnesota that they shouldn't pay for anything in the metro area," Hausman said. "But the metro area is the economic engine of the state's economy." It represents two-thirds of the state's Gross Domestic Product (GDP) and has a Gross Metro Product of \$200 billion, making it the 13th largest metropolitan economy in the nation. "If the metro area stays economically competitive and healthy, we do all sorts of good things for the rest of the state," she said. "We're interdependent."

Chambers of Commerce from around the state know that the kinds of investments in the bonding bill are a central part of their economies. Hausman said communities believe bonding for things like a convention center or an amateur sports facility keeps them economically healthy. "Everyone makes the economic argument," she said.

In Lanesboro, she said, the Root River bike trail has changed the local economy. Towns around the state support bike and walking trails both for health and for their economic impact on communities on and near the trails. In Chatfield, the performing arts center is part of the new way that city operates, she said. "We hear that all over the state," she said, "that the arts draw tourists. All of these cultural entities have an economic impact."

This year's bonding bill will include \$100 million for housing for people who are homeless. Of that amount, \$20 million is for traditional public housing and \$80 million is for Housing Infrastructure Bonds for permanent supportive housing that the Minnesota Housing Finance Agency (MHFA) asked for. "Now they can do their own bonding," she said. General obligation bonding can only be used for public infrastructure, but when MHFA bonds, it can partner with nonprofits, like Catholic Charities and Lutheran Social Services, which leverage huge amounts of private dollars. The state pays the debt service.

"We're interested in ending homelessness," she said. "There is University of Minnesota (U of M) research that shows the connection between homelessness and the achievement gap. It shows that fifth graders who have been homeless or highly mobile achieve at the level of second graders who have been in stable housing. That's the achievement gap. It's an expensive problem for us. We spend billions of dollars on education, half the budget. We can spend a small amount assuring housing for homeless people, half of whom are less than 20 years old."

She said Utah realized that it costs more to pay for homelessness than to move chronically homeless people off the street into permanent housing. Utah cut homelessness by 78 percent over eight years, she said, and wants to end it by 2015.

"We insist on permanent supportive services with housing for homeless people, because we don't want to just house them overnight," she said. "We want to help them move out of poverty with all of the services for things such as mental health, alcohol dependency and runaway youth." She mentioned the example of a high-rise building in St. Paul with a new building out front, where early childhood education and after-school tutoring are offered. "Now 100 percent of the kids in that building graduate from high school," she said.

Legislators must prove that capital investments are fair to everyone. Those investments, such as Minnesota State Colleges and Universities (MnSCU), public housing, water projects, local bridge replacements, etc., take place all over the state, Hausman said. "When they look at my bill, people should say, 'She was fair to everyone.'"

The state should pay for new higher education buildings, but the systems should maintain them. Hausman said there is a backlog of higher education projects around the state that MnSCU keeps bringing back to the bonding committee, "because we're never aggressive enough. None of these regions give up on these projects." An interviewer commented that perhaps the state could pay for higher education buildings up front and then the systems would maintain them. Hausman agreed. "That's a new idea I'm floating," she said.

She said every year the U of M's and MnSCU's asset preservation lists (that is, buildings that need repair or major renovations) get bigger and bigger. It's now \$100 million. "They say the state isn't maintaining its assets," she said. "When we build buildings, the state pays for two-thirds and the institution pays for one-third. But for asset preservation, the state pays 100 percent. They have an incentive to move more of their needs to asset preservation status."

"I have started to say higher education systems have to be really careful about building new buildings or renovating them," she continued. "Then they should have a business plan to operate and maintain them. It's a different way of thinking," she said.

An interviewer asked if the Legislature requires that anyone with a capital bonding request show a budget for maintaining and operating the investment. Hausman replied that the Department of Management and Budget does ask that for all bonding requests. And, she said, the MHFA must prove they have the services to go with their housing requests.

The governor wants to treat the U of M and MnSCU equally in bonding. "The problem," Hausman said, "is that MnSCU has 400,000 students vs. 50,000 for the U of M."

Many local government requests are never going to get funded. Hausman said higher education is usually 30 percent of the bonding bill, natural resources are about 23 percent, public safety and corrections are a big area and local government requests are about half the size of state agency requests. But, she said, many local government requests are never going to get funded. "We are not going to save all the dying towns," she said. "We get lots of requests and it's very painful, but I say 'no' more than I say 'yes.'"

The bonding bill funds early childhood centers all over the state. This year's bonding bill will include \$10 million for early childhood centers, Hausman said. Of that amount, \$5 million will go to Minneapolis for the downtown YWCA early childhood center, **because it serves kids from Elk River to Hastings.**

Funding K-12 facilities would be "daunting." Hausman said higher education facilities are somewhat limited. "But we've been very hesitant to do K-12, because that's huge. It would be endless. There is a push because facilities are deteriorating. It's so big that it would be daunting."

Local governments must prove statewide or regional significance in their bonding requests. An interviewer asked if there are one or two major principles that Hausman would like to follow in deciding whether a local government proposal would be considered. "Local governments must have economic studies that show the impact of a project," she responded. "Right now, people want to live in cities. The economic vitality of its cities is what is making Minnesota strong and competitive. Our decisions are based on knowing what impact a project is going to have. The most important criterion a city has to fulfill when making a request is to tell us why it has a statewide or regional impact."

Lack of progress in mass transit is hurting Minnesota economically. An interviewer asked how the vision of the changing economy is factored into the bonding process. Speaking of mass transit, Hausman said, "Something's wrong with us. We plan badly, we execute badly. It is hurting us economically. Denver has figured it out and that's where the young demographic is moving. Our business community knows it. We haven't figured it out yet in Minnesota. Other states and other countries are moving more aggressively. They want the businesses that we ought to be figuring out how to get. One failure is that we don't have visionary leaders right now."

Build infrastructure only when there's a plan for economic development and developers are ready to act on it. An interviewer commented that twelve of the governor's projects, some of which are quite local, were for economic development. Pointing to a request for the former Twin Cities Arsenal property, the interviewer asked how we end up with all these little projects for specific cities in the state bonding bill.

Hausman replied that Ramsey County is asking for \$29 million for infrastructure for the Arsenal property. "It's partly about equity," she said. But she feels strongly that "when there's a plan for the

area and there are developers, then we should build the infrastructure, but not in anticipation." She noted that the state built infrastructure at Elk Run near Rochester to attract high-tech companies. "It's like a road to nowhere," she said. "There's infrastructure, but nobody came."

The state does not have the funds to pay for the Minnesota Department of Transportation (MnDOT) 20-year highway investment plan. Hausman pointed out that trunk highway roads and bridges can only be paid for with gas, license and motor vehicle taxes, not with general obligation bonds. She said both at the state and national levels, people hate to raise the gas tax. "We haven't raised those revenues and our infrastructure is showing that," she said. "We build our roads to a very low standard, so they fall apart and get potholes. If we built to European standards, the roads wouldn't fall apart so quickly, but the gas tax would have to be higher. MnDOT has a plan, but we have no funding for it, so the plan won't happen."

The state can't pay for everything the federal government is unable to fund anymore. An interviewer commented that states can't look to the federal government for transportation funding anymore. He asked whether a major transportation investment should be made through borrowing and, if so, what kind of borrowing should be used.

"The federal government can't be depended on in the foreseeable future for transportation or for veterans' housing," Hausman replied. "We can't bail the federal government out. When the federal government systems aren't working, what still makes sense for the states to do? We know there's a direct cost to the state for homelessness, so we have a vested interest in making sure there's housing. In the case of transportation, the needs are so great that what we've done in the bonding bill is a pittance."

State agencies make their requests to the governor. An interviewer asked how the state agencies put together their requests for bonding. They make their requests to the governor, Hausman said, and see what he puts into his bonding proposal. This year he has told the agencies they could plead directly to the bonding committee, if he did not include their requests in his proposal. "We take pretty seriously what the governor has put in, because all of those agencies work for him," she said.