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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-FOURTH SESSION

H. F. No. 2418

03/17/2025 Authored by Tabke and Lee, F., The bill was read for the first time and referred to the Committee on Elections Finance and Government Operations

1.1 A bill for an act
1.2 relating to capital investment; requiring local governments to establish replacement
1.3 accounts to maintain and replace capital projects that receive state funding;
1.4 proposing coding for new law in Minnesota Statutes, chapter 16A.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. 16A.865 CAPITAL PROJECT REPLACEMENT ACCOUNTS.

1.7 Subdivision 1. Definitions. (a) For the purposes of this section, the following terms have
1.8 the meanings given.

1.9 (b) "Commissioner" means the commissioner of administration.

1.10 (c) "Preservation" means improvements and betterments of a capital nature consistent
1.11 with those described in section 16B.307, subdivision 1, paragraph (d).

1.12 Subd. 2. Replacement account establishment. (a) A grantee that receives a direct
1.13 appropriation or grant from an appropriation of state money for a capital project subject to
1.14 section 16A.642, 16A.695, or 16A.86, must establish a capital project replacement fund for
1.15 major rehabilitation, expansion, replacement, or preservation of the capital project once the
1.16 project has reached its useful life, or for another use as permitted under this section. Money
1.17 must remain in the account for the useful life of the capital project, as determined by the
1.18 grant agreement with the granting state agency, unless use of the fund is approved in writing
1.19 by the granting state agency for major rehabilitation, expansion, replacement, or preservation
1.20 of the capital project funded with state money, or to address a capital project for a different
1.21 capital asset owned by the grantee.

2.1 (b) A grantee must adopt a capital project replacement policy that specifies the following
2.2 for the capital project replacement fund:

2.3 (1) the risks to be mitigated or managed by the fund;

2.4 (2) the intended use of the replacement fund, including, but not limited to, how the fund
2.5 will be used for major rehabilitation, expansion, replacement, or preservation of the capital
2.6 project; and

2.7 (3) criteria for the use of the fund to address other capital improvement needs of the
2.8 grantee, including safety and security, maintenance and utility costs, availability of repair
2.9 parts and materials, sustainability, and any other criteria the grantee deems relevant.

2.10 (c) For the purposes of this section, "grantee" does not include a state agency or state
2.11 official.

2.12 Subd. 3. **Minimum deposits; fund balance.** (a) The commissioner must determine the
2.13 annual minimum deposit amounts to be deposited into capital project replacement funds by
2.14 capital project type. The commissioner must take into account depreciation, construction
2.15 cost inflation, and other relevant factors when determining the minimum deposit amounts.

2.16 (b) A grantee must not be required to maintain a capital project replacement fund balance
2.17 greater than the amount of the direct appropriation or grant from an appropriation of state
2.18 money for the capital project.

2.19 Subd. 4. **Account auditing.** The state auditor may audit capital project replacement
2.20 accounts as part of the regular audits of local governments.

2.21 Subd. 5. **Exceptions.** Capital projects that already require a replacement fund under
2.22 section 446A.072, subdivision 12, or any other law, rule, or ordinance, are exempt from the
2.23 requirements under this section, so long as the deposits into the replacement fund are at
2.24 least as large as the minimum deposits established by the commissioner under subdivision
2.25 3.

2.26 Subd. 6. **Penalty.** Failure of a grantee to comply with the requirements of this section
2.27 shall result in the granting state agency assessing a penalty fee to the grantee equal to one
2.28 percent of the appropriation of state money for the capital project for each year of
2.29 noncompliance. Penalty fees shall be remitted by the granting state agency to the
2.30 commissioner of management and budget for deposit into the general fund.

2.31 **EFFECTIVE DATE.** This section is effective for capital projects funded through state
2.32 capital project grant agreements entered into on or after July 1, 2025.