

# Will \$1 Billion Bonding Bill Stimulate Minnesota Employment?

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Minnesota legislators face serious financial problems going into the 2010 session on February 4<sup>th</sup>. So, what's the hot issue? The "**bonding bill**," or how much legislators are going to spend on "**capital improvement projects**," financed with more "**general obligation bonds**." They do this almost every year, but especially on even-numbered years. This year they assure us it will create jobs and cure Minnesota's unemployment problems.



House Speaker Margaret Anderson Kelliher, left, said a bonding bill would put people to work on transportation and construction projects and that focusing on job creation is a means to increasing tax revenues. Kelliher's comments came during a Dec. 2 news conference in reaction to the November Economic Forecast. House Majority Leader Rep. Tony Sertich, right, listens. Photo by Tom Olmscheid

Legislators are arguing with Gov. Pawlenty over how much to borrow and spend. He wants **\$685 million**, they want **\$1 billion**. Minnesota's general obligation bond debt currently is **\$5.0 billion**, with **\$1.4 billion** just for interest (Pages C-1 – C-5). Minnesota taxpayers, of course, are obligated to pay it off – it's officially called our "**debt service**."

Who directly benefits from all this debt and bonding, anyway? Here are the underwriters of Minnesota's bond issues:

**Barclays Capital**  
**Merrill Lynch & Co. (Now Bank America)**  
**Wells Fargo Securities/ Wells Fargo Brokerage Services, LLC**  
**Morgan Stanley** Piper Jaffray & Co. RBC Capital Markets  
Citi Cronin & Co. Dougherty & Company LLC  
Fidelity Capital Markets **Goldman, Sachs & Co.**  
Jefferies & Company **J.P. Morgan** Loop Capital Markets, LLC  
Raymond James & Associates, Inc. Robert W. Baird & Co.

Taxpayers bailed-out the ones highlighted in **red**, after their "House of Cards" gambling with mortgage-backed securities brought down the nation's economy and started the "**Great Recession**." The state, nevertheless, still uses them to underwrite its bonds, fully guaranteed by taxpayers, so they have minimal risk. Goldman Sachs' underwriting business generated \$962 million in revenue last quarter alone. Investment banks also invest in securities (including mortgages), commodities (oil, corn, soybeans, carbon) and real estate. They sponsor public stock offerings and fund joint ventures with private equity firms and hedge funds. What a racket! Oh,

and of course, they make generous campaign contributions to political candidates -- in both parties.

Goldman Sachs trails only ATT, the American Federation of State, County and Municipal Employees (AFSCME) and the American Association of Realtors in overall [political campaign contributions](#). My district representative, [Collin Peterson](#), says: “The banks run the place,” meaning Congress.



AP – FILE - In this Jan. 13, 2010 file photo, Goldman Sachs Group, Inc. Chairman and Chief Executive Officer ...

It's no wonder [investment banks](#) reap enormous profits, and CEO's like [Lloyd Blankfein](#) of Goldman Sachs can afford to pay himself a bonus of [\\$100 million](#), plus billions more in outrageous salaries and bonuses for his employees. Taxpayers support this selfish, shameful behavior with direct bail-outs, low interest money from the Federal Reserve and state bond issues. It's all approved by our state and federal elected officials.

Goldman Sachs finally is attracting some scrutiny for its questionable trading practices (See *McClatchy* series [“Goldman under investigation for its securities dealings”](#)).

But let's get back to the “[bonding bill](#).” [Speaker Margaret Anderson Kelliher \(DFL\)](#) and her [House](#) and [Senate](#) colleagues pounded through an “[Omnibus Transportation Finance Bill](#)” in 2008? That bill authorized [\\$1.8 billion](#) in general obligation bonds for the trunk highway fund and [\\$60 million](#) for the state transportation fund.

In that same “[Omnibus](#)” bill, they [raised](#) the gas tax from [20 to 28.5 cents a gallon](#) ([Page B-38](#)) on all Minnesotans -- rich and poor, young and old, alike. They called it a “[debt service surcharge](#)” ([2008 Chapter 152 Art. 2 Sec.1](#)). Essentially, they created more debt with the bond issue and then increased the gas tax to pay for it. The “[Omnibus](#)” bill also lifted former Gov. Jesse Ventura's caps on motor vehicle registration, again taxing all Minnesotans -- rich and poor, young and old, alike. “[Regressive](#)” tax hikes like those certainly don't bode well for these self-proclaimed, “[progressive](#)” legislators.

Gov. Pawlenty [vetoed](#) the “[Omnibus](#)” bill. DFL legislators over-rode his veto and appropriated [\\$1.8 billion](#) ([2008 Chapter 152 Art. 2 Sec. 3](#)) to MnDOT, including [\\$1.7 billion](#) earmarked specifically for highway and bridge construction.

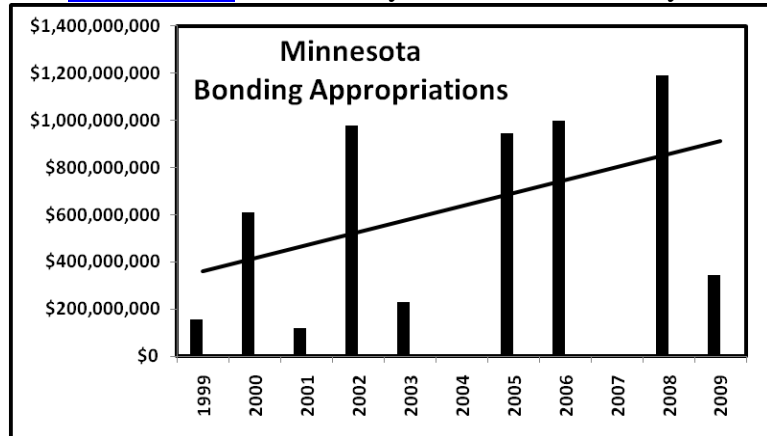
The 2008 legislature also authorized, this time with Gov. Pawlenty's approval, a total of [\\$1.2 billion](#) for “[capital improvement projects](#),” in two other appropriation bills (Chapters [179](#) and [365](#)). Chapter 365 included \$20 million for DNR to create Lake Vermilion State Park in an acquisition from U.S. Steel. Gov. Pawlenty strongly supported the deal and [recently announced](#) the park is moving ahead.

So, in 2008 legislators appropriated a total of [\\$3.0 billion](#) for road and bridge construction and

assorted “**capital improvement projects.**” That certainly should have “**stimulated**” employment in Minnesota ... right?

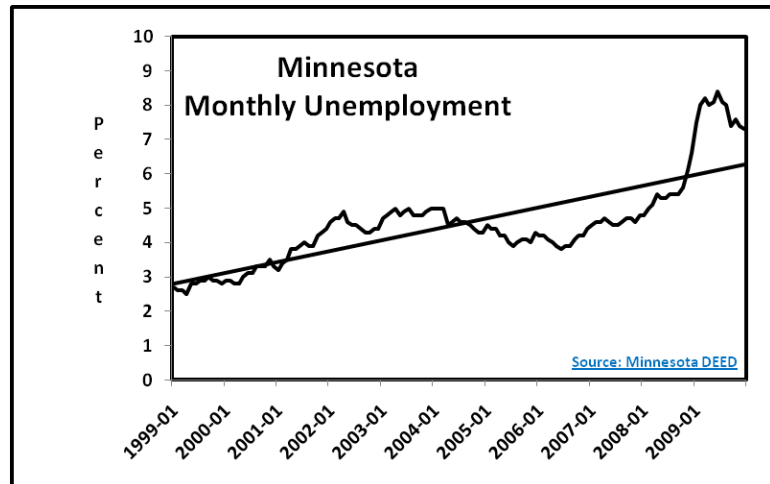
I recently compiled the historical “**capital improvement appropriations**” directly from each “**bonding bill**” approved by the legislature since 1999 ([spreadsheet](#)). I also downloaded Minnesota’s official unemployment rate from the Minnesota Department of Employment and Economic Development (DEED) over the [same period](#). Incidentally, the Web sites run by [DEED](#) and the [Legislature](#) are first rate and full of useful information and statistics.

Legislators will be hard pressed to find a statistician who can defend their repeated claims that more “**bonding**” creates significantly more jobs. It’s obvious unemployment has risen considerably over the past decade, despite ever-increased “**bonding appropriations**” for capital improvement projects. Nonetheless, legislators are determined to pound through another “**bonding bill**” this session.



It’s all part of Speaker Kelliher’s “[Jobs Taskforce](#)”, created last September. Several [House bills](#) already have been submitted for a variety of projects saying: “... **bonds issued, and money appropriated.**” [Rep. Alice Hausman \(DFL\)](#), chair of the Capital Investment Finance Division, hopes to have a **\$1 billion** “**bonding bill**” wrapped up by [February 15<sup>th</sup>](#).

Seasonal adjusted employment in Minnesota was 2,738,260 and unemployment was 217,705 in [December 2009](#). Let’s do some basic desktop calculations: Suppose the legislators approve **\$1 billion**, and it all goes into wages for construction workers making \$25 per hour. That works out to \$52,000 per year, assuming they work 8 hours a day, 5 days a week for 52 weeks in the year. Now, if we divide \$1,000,000,000 by \$52,000, we get 19,231 fulltime workers. That’s only **0.7%** of employment in December 2009 -- a drop in the bucket!



That’s the best case scenario since not all the bond appropriations will go directly to the construction workers for “**shovel-ready**” projects. The state’s bond sale expenses and interest must be deducted from the proceeds, as do overhead and profits for the contractors. Moreover,

bond money in Minnesota usually goes to government agencies, and it gets used in-house to support overhead and bureaucracy, or for property easements, land acquisitions and countless other “projects” that create few jobs. I think it’s safe to conclude, the legislators’ latest “**bonding bill**,” like their earlier ones, won’t do much to improve Minnesota’s employment situation. Unemployment rose considerably in 2008, and remained high in 2009, despite the legislators’ **\$3.0 billion** appropriations for capital improvements and highway and bridge construction in May 2008.

A recent *Associated Press* [analysis](#) of the federal “**stimulus**” transportation program concluded: **“Even within the construction industry, which stood to benefit most from transportation money, the AP’s analysis found there was nearly no connection between stimulus money and the number of construction workers hired or fired since Congress passed the recovery program. The effect was so small, one economist compared it to trying to move the Empire State Building by pushing against it.”**

Minnesota received **\$2.142 billion** from the “**stimulus**” program for FY 2009-2010, mostly for Medical Assistance and other human services ([Page B-26](#)).

This year’s **\$1 billion** “**bonding bill**” will just further aggravate the state’s already bleak financial outlook. The Minnesota Management and Budget (MMB) commissioner recently had to “[update](#)” the debt management policy to avoid exceeding the statutory debt limit. That limit is set to ensure the debt load can be supported by the tax base.

Once the guidelines were “**updated**,” Rep. Hausman and her staff quickly [concluded](#) that the new criteria “**provide substantial room for additional debt**.” She says the state can borrow at least another **\$2 billion**. That’s music in the ears of the “**Jobs Taskforce**,” and just in time to dish out their latest **\$1 billion** “**bonding bill**” for Minnesota taxpayers.

#### Cash Shortfall Expected in March - May

- Absent budget-balancing action by Legislature and Governor, payment delays may be necessary
- \$400 million in working capital required in *Statutory General Fund* for daily cash management. Current projected monthly low points:
  - March \$227
  - April \$(143)
  - May \$19
- Approximately \$550 million needed in the form of legislative or administrative actions, payment delays, or line of credit borrowing

The debt load is not the only serious financial problem facing Minnesota. There are serious [cash flow problems](#) too. MMB’s January forecast shows cash in the *Statutory General Fund* will drop below the \$400 million limit in March, go negative in April and only slightly recover in May. (Click table for full report). To put it bluntly, the state’s nearly broke and struggling to find enough cash to operate government and pay the bills. MMB is looking at various options to solve the problem, including short-term borrowing, possibly up to **\$1 billion**.

State employees, 88% of them in unions ([Page A-4](#)), are probably relieved to hear there’ll be enough cash to meet the state payroll. It totaled [\\$2.3 billion](#) in 2009. That’s a lot of cash! I’m sure 2010 gubernatorial candidates, like Speaker Kelliher, who get [union support](#), are relieved

too. Issuing California-style IOUs or pink slips in the midst of the campaign season probably wouldn't set well with government-union employees.

For now, MMB will just delay another **\$423 million** in aid to local school districts. That only postpones the inevitable because cash shortages will get **much worse** (**FY 2011 graph**). The cash balance will drop below the statutory limit again in September and stay negative through June 2011, the end of the fiscal year.

Then there's the long-term budget deficit. **"... What About Tomorrow?"** asked longtime state economist, Tom Stinson, in a presentation to the **balanced budget commission** last fall. **"Minnesota faces a never-before-seen 'structural budget deficit' that reaches far into the future, Stinson warns -- a phenomenon wrought by an aging workforce and slowing revenue growth that will hamper the state's ability to provide the services taxpayers have come to expect. There are no short-term answers, he said, and no single approach, such as tax increases or spending cuts, will by itself solve the problem."**

The **budget deficit** currently is **\$1.2 billion** and could grow to **\$5.4 billion** by 2013.

Hence, the 2010 **"Governor's race is all about taxes"**, at least among DFL candidates: Rep. Tom Rukavina, a co-sponsor of the **"Jobs Taskforce,"** proposes a 10% income tax surcharge; Sen. Tom Bakk, who also chairs the **tax committee**, wants a **\$2.2 billion** income tax increase, approved by the Senate last session but never signed into law; Speaker Kelliher is considering several options; Mayor R.T. Rybak wants to extend the sales tax to clothing over \$200 and former U.S. Senator Mark Dayton says **"tax the rich."**

GOP gubernatorial candidate Rep. Marty Seifert wants to cut entitlements, government programs and local aid. No one mentions cutting out bonding this session. That's just not on anyone's radar screen. The **"bonding bill"** is the state equivalent of Congressional earmarks, what some call **"pork barrel"** spending. No one wants to give up their pet projects, not even in the midst of the **"Great Recession."**



If elected and appointed officials are so determined to take on even more debt, either for capital improvement projects, or daily government operations; I'd hope they come to their senses and borrow money from our **community banks**, instead of **investment banks**. Why should we keep handing over tax dollars to support the lavish lifestyles of Wall Street bankers? It makes no sense whatsoever. Then again, I suppose there's a mandate discretely written in some federal **"Omnibus"** bill, requiring **all states** to use Wall Street underwriters for **all bond issues**.

I noticed in MMB's latest bond report that Thomas Huestis of the "[Public Resources Advisory Group](#)" (PRAG) is listed as a "public" contact ([Page 2](#)). PRAG is headquartered in NYC, with offices in Philadelphia, Los Angeles, Boston, Oakland and St. Petersburg. Mr. Huestis heads up the Philadelphia and St. Petersburg offices. The firm was founded in 1985 and since then has advised state and local governments, authorities, agencies, and non-profits on financing for [\\$540 billion](#), some no doubt from Minnesota taxpayers.

Sue Gurrola, the MMB bond analyst, hasn't responded to an information request I made recently through her [contact page](#); where, incidentally, her name is spelled Gurola. Which is it: Gurola as listed on her contact page, or Gurrola as listed on the bond issue ([Page 2](#))? Why does it matter? Well, here's why it matters. You can't send "HTML text" in contact pages, meaning you can't embed links like you see all over this article.

I prefer direct e-mail. It's pretty easy to figure out state e-mail addresses. Minnesota's state employees are: [firstname.lastname@state.mn.us](#) Let's try sending one to [sue.gurola@state.mn.us](#) Here's the message you get back: "Your message was not delivered to the following recipients: [sue.gurola@state.mn.us](#): User unknown."

Some state employees and legislators purposely misspell or otherwise alter their names to avoid direct e-mail contact from the "public" – even though we pay for their desks, computers, phones, salaries and benefits. I call it "opaque," government, as opposed to "transparent" government, which of course is what we're supposed to have in this country. Ms. Gurrola's (aka Gurola) e-mail address is correctly listed on the bond issue: [sue.gurrola@state.mn.us](#)

But let's get back to PRAG again. The firm [offers](#) "... substantial experience in structuring and marketing bond issues and experience presenting issues to credit rating agencies that directly benefited our clients." What does that mean? Credit rating agencies currently are under scrutiny for issuing favorable bond ratings, when they weren't justified, in the run-up to the "Great Recession" (See *McClatchy* series: "[How Moody's sold its ratings – and sold out investors](#)" and *Wall Street Journal*: "[Moody's Analysts Are Warned to Keep Secrets](#)").

PRAG handles two of the largest issuers of debt in the municipal market -- California and NYC. That should [raise eyebrows](#) at MMB, the legislature and governor's office. California and NYC are experiencing some of the worst financial problems in the nation. It brings to mind that old saying: "As California goes, so goes the nation." Indeed, states across the country are swamped with budget problems and drowning in debt.

Why in the world does MMB need to retain a financial advisor in Philadelphia, headquartered in NYC, no doubt for hefty fees? Aren't there any financial advisors in the Metro area, home to [19 Fortune 500](#) companies ([Page E-9](#)), who can handle state bond issues? Let's keep that money in the state, where it belongs -- where it benefits Minnesotans instead of Wall Street bankers.

Minnesota Legislative Auditor, James Nobles, recently submitted his latest "Independent Auditors Report" ([Pages F-1 - F-2](#)) to legislators, Gov. Pawlenty and MMB Commissioner, Tom Hanson. He says he [didn't audit](#) the financial statements of the Minnesota State Colleges and Universities (MnSCU), University of Minnesota, Housing Finance Agency, Metropolitan

Council, ClearWay Minnesota, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, and Workers' Compensation Assigned Risk Plan. **Why not?** MnSCU has received **\$1.2 billion** and the U of M **\$716 million** in bond appropriations (**spreadsheet summary**) since 1999. Though both institutions have their own internal auditors, the legislative auditor should be charged with auditing bond appropriations for the universities and all other recipients.

Legislators and the governor have charted a very risky financial course for Minnesota with their chronic addiction to **"bonding bills."** Borrowing for capital improvements may be warranted in some cases, but don't peddle it to taxpayers on the false premise that it will create a flood of jobs in Minnesota. It doesn't, as history clearly demonstrates.

I see no logical reason why we need to go to Philadelphia to get financial advice or Wall Street for capital. Far as I know, Goldman Sachs doesn't have any branch offices in Minnesota. There are **1,696** FDIC-insured **community banks** all across the state. They're well run, locally-owned and always ready to help residents. If MnSCU needs a new laboratory in St. Cloud, Winona, Marshall or anywhere else, then finance it from **community banks** in those areas. I'm tired of funding **bonuses** on Wall Street with Minnesota tax dollars!

The **"Financial Services Modernization Act of 1999,"** (aka **Gramm-Leach-Bliley Act of 1999**) was signed on November 12, 1999 by President Bill Clinton, amid much bipartisan, congressional hoopla. It repealed the **"Glass-Steagall Act of 1933,"** which prohibited commercial banks from misbehaving as **investment banks**, widely blamed back then for causing the **"Great Depression."**



I'm struck by the serious mood

Corbis/Bettmann, left; Justin Lane for The New York Times  
at separated banks from securities firms. In 1999, Bill

of participants at FDR's signing of **Glass-Steagall**, captured in the *New York Times* photo above. That's in sharp contrast to the jovial atmosphere at Bill Clinton's signing of **Gramm-Leach-Bliley**. FDR and his lawmakers, of course, were in the midst of the "**Great Depression.**" Nobody was laughing then.

President Clinton made the following [remarks](#) at his signing ceremony: "So I think you should all be exceedingly **proud** of yourselves ... today what we are doing is **modernizing** the financial services industry, tearing down these **antiquated laws** and granting banks significant **new authority**. This will, first of all, **save consumers billions** of dollars a year through enhanced competition. It will also **protect the rights** of consumers."

The [late](#), former Minnesota U.S. Senator, Paul Wellstone, saw it [differently](#): "Scores of banks failed in the Great Depression as a result of unsound banking practices, and their failure only **deepened the crisis**," Mr. Wellstone said. "Glass-Steagall was intended to **protect our financial system** by insulating commercial banking from other forms of risk. It was one of several stabilizers designed to keep a **similar tragedy from recurring**. Now Congress is about to repeal that economic stabilizer without putting any comparable **safeguard** in its place."

Never mind the critics like Sen. Wellstone, North Dakota's Sen. Byron Dorgan, former Nevada Sen. Richard Bryan and a handful of others. With a stroke of the presidential pen, Bill Clinton and the bipartisan, "**financial modernization**" coalition ushered in an era on Wall Street that the *New York Times* aptly named, "[... America's Casino Culture.](#)"

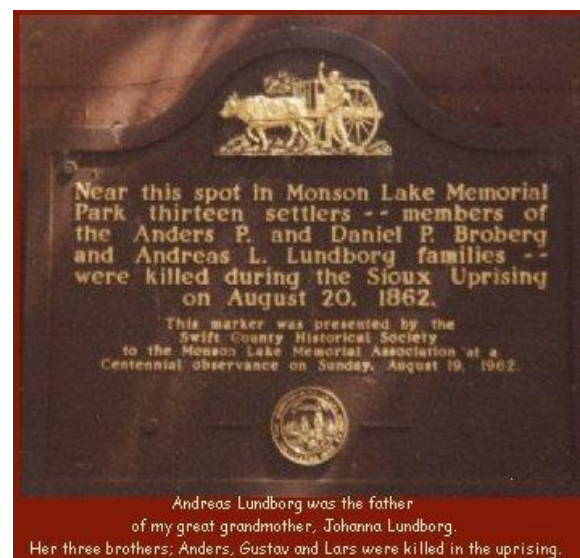
**Investment banks** now control all aspects of our lives. There are [15.3 million](#) Americans unemployed today and another **2.5 million** under-employed. Countless more are [hungry](#) and [homeless](#) -- victims of the "**Great Recession.**" Nobody's laughing now.



My father, Lloyd, and his parents  
Lewis and Minnie Paulson, circa 1925

My grandfather met an [untimely death on Christmas Day 1939](#), a victim of the "**Great Depression.**" Had it not been for financial help from a local banker, my father surely would have lost the family farm near Sunburg. It was homesteaded in July 1861 by [Andreas L. Lundborg](#), father of my "great" grandmother; Johanna, spouse of my "great" grandfather, Erick Paulson, a Civil War soldier.

The Lundborg Cabin was attacked in the [1862 Dakota-Sioux Uprising](#).  
Three of Johanna's



Andreas Lundborg was the father  
of my great grandmother, Johanna Lundborg.  
Her three brothers: Anders, Gustav and Lars were killed in the uprising.



brothers were killed in the August 20<sup>th</sup> attack, along with ten members of the Broberg families. The surviving pioneer settlers fled the area but later returned to resettle their farms.

Ours has been in the family ever since, thanks to the help my father got from a local banker in 1941.

I'm convinced **community banks** can serve the same role again today and help rescue America from the grip of the "Great Recession." First, though, the **DFL-controlled legislature** and the **governor** must free us from "**bondage**" by Wall Street **investment bankers**.

**It doesn't cure unemployment – it causes unemployment!**