



Background Briefing

CAPITAL OUTLAY

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December 2011

The fiscal information in this background briefing is based on data through December 31, 2011.

Capital Outlay

- **The budgetary and administrative functions devoted to planning and financing the acquisition, construction, renovation, and maintenance of facilities used by state agencies, public universities, and community colleges**
- **Legislative oversight of the Capital Outlay process is provided through the Joint Capital Outlay Subcommittee (JCOS)**
- **Statutory acts governing the capital outlay process include the Management and Budget Act, PA 431 of 1984, and the State Building Authority Act, PA 183 of 1964**

**JOINT CAPITAL OUTLAY
SUBCOMMITTEE**

Joint Capital Outlay Subcommittee (JCOS)

- **JCOS is the only appropriations subcommittee that has duties and responsibilities defined in statute**
- **Public Act 431 of 1984, the Management and Budget Act, outlines operational practices, procedures, and other duties and responsibilities of the executive and legislative branches and of higher education institutions relative to capital outlay**
- **Annual capital outlay appropriation acts, the General Government appropriations act, and formal policies of the JCOS provide procedural structure and approval requirements of capital outlay projects**

Joint Capital Outlay Subcommittee (JCOS)

- **JCOS is comprised of 14 members – 7 from the House of Representatives and 7 from the Senate (based on rules of the current two-year cycle; number is subject to change with each new cycle)**
- **JCOS is chaired by each chamber on a two-year rotational basis**
- **8 members constitute a quorum; each chamber must be represented by at least 4 members**
- **Approval of agenda items requires a “Yes” vote by a majority of the members serving (8)**
- **At the beginning of each two-year cycle, JCOS adopts formal policies and procedures**

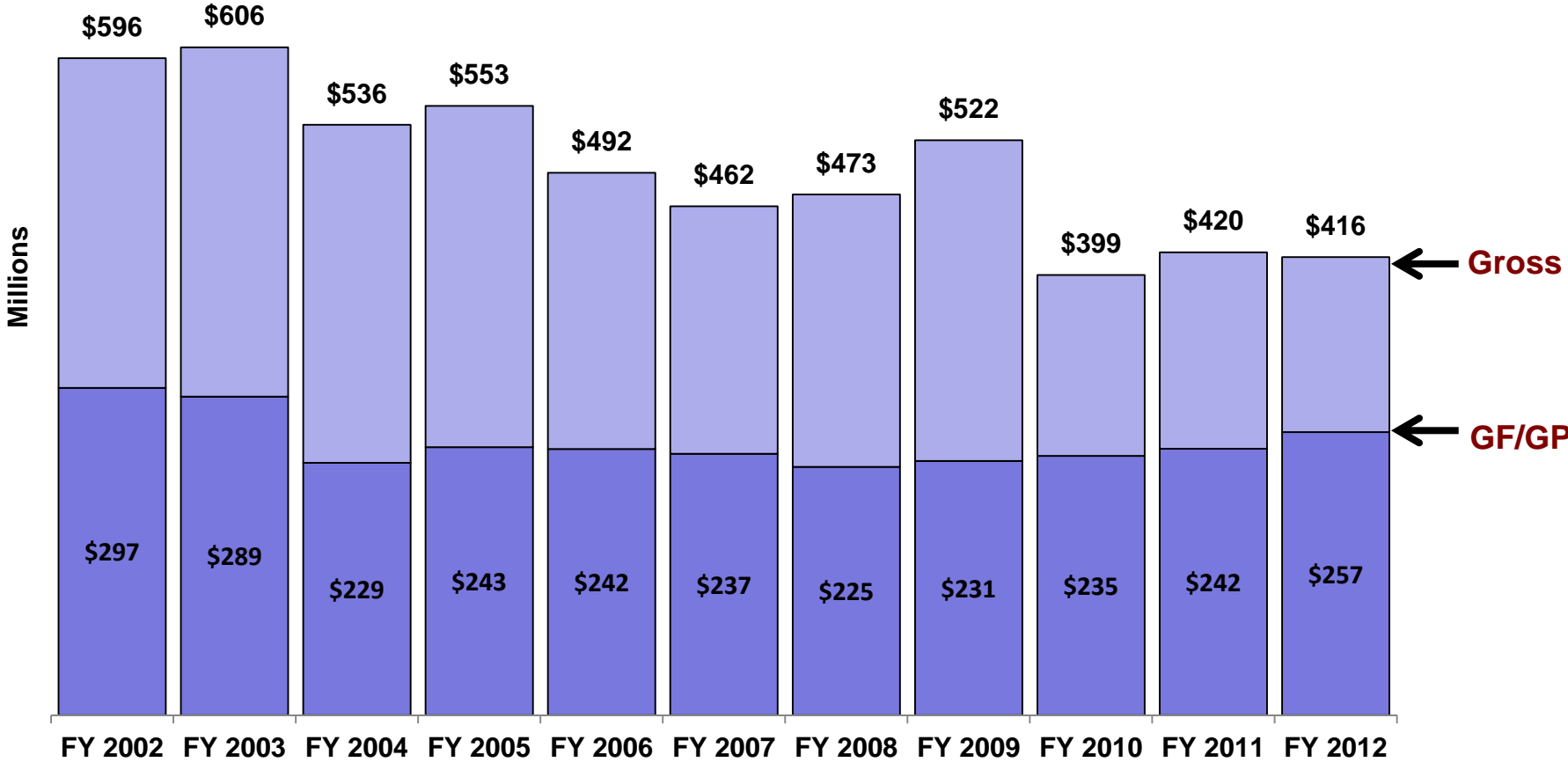
JCOS Duties/Responsibilities

- **Prioritize future state agency, university, and community college project requests**
- **Provide project planning authorization through appropriations bills**
- **Approve/disapprove project program statements and schematic design planning documents**
- **Establish total authorized cost of projects and financing sources through appropriations bills**
- **Approve/disapprove state agency requests to lease private space that exceeds certain minimums (at least 25,000 sq. ft. and/or costs over \$1,000,000 per year)**
- **Approve/disapprove funding transfers between capital outlay budget accounts**
- **Initiate concurrent resolutions which convey property and establish lease agreements between the State Building Authority (SBA) and the state**

CAPITAL OUTLAY APPROPRIATIONS

Capital Outlay Appropriations History

Includes appropriations for SBA rent payments, for capital outlay projects included in the Departments of Agriculture, Education, Energy, Labor and Economic Growth, Military and Veterans Affairs, Natural Resources, Technology, Management, and Budget, and Transportation budgets, as well as planning and construction authorizations for universities and community colleges. Does not include appropriations for Michigan Natural Resources Trust Fund projects.

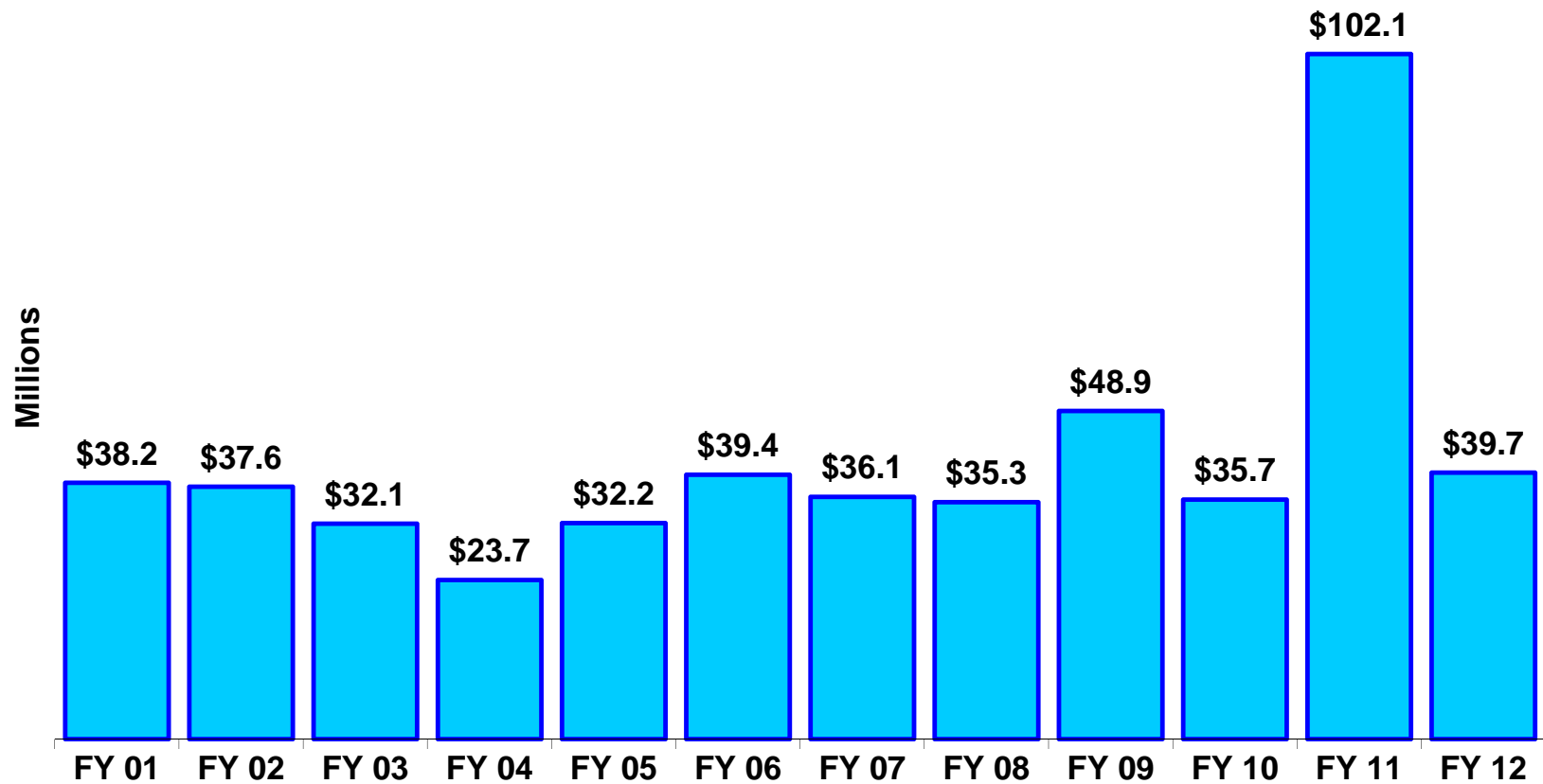


State Agency Projects

- **Program areas include:**
 - **State parks and state harbor maintenance**
 - **Maintenance of state docks and boating facilities**
 - **MDOT facilities**
 - **Airport safety and protection (i.e. new terminals and runways, buying snow removal equipment, airport access, and passenger, employee, and baggage screening)**
 - **Special maintenance for state agencies**
 - **Farmland and open space development acquisition**

Michigan Natural Resources Trust Fund (MNRTF) Gross Appropriations History

Appropriations from the MNRTF are provided for land acquisition and development projects recommended by the Trust Fund Board. Appropriations are used for the purchase and development of lands for public outdoor recreation and for protection of natural resources and open space. The Trust Fund is supported with revenues from state-owned oil and gas mineral resources. The proposed amount for FY 2011 contains one-time revenue from the oil and gas lease auction held by the state in May 2010.



CAPITAL OUTLAY PROCESS

Michigan Capital Outlay Process

1. Master Plans

- State agencies, universities, and community colleges are required by Public Act 8 of 1999 to annually submit five-year master plans to the Department of Technology, Management, and Budget (DTMB) and JCOS for review
- Each plan must include prioritized state-funded project requests, special maintenance needs, and an inventory of current facilities, including a professional assessment of the facilities' respective conditions

2. Review of Plans for Planning Authorization

- Five-year master plans are reviewed by DTMB and JCOS
- Governor determines which plans warrant authorization and includes authorization in Executive Budget Recommendation
- JCOS and Legislature review Governor's budget and make any changes they deem appropriate (may include capital outlay project requests not recommended by the Governor)

3. Planning Authorization

- Approved planning authorizations appear as \$100 line item appropriations in a budget bill
- \$100 line item establishes the account and allows the university or community college to proceed with professionally developed program and schematic planning documents
- Planning documents provide the project's purpose, scope, and estimated cost
- All planning costs are paid by the higher education institution and count towards their project match requirement
- Standard match rate for an SBA-financed project is 25% from university funds and 50% from community college funds

Michigan Capital Outlay Process

4. Review and Approval of Planning Documents

- Program and schematic planning documents for the project must be submitted to DTMB for review and approval
- Adjustments may be made by DTMB
- Once approved by DTMB, documents are submitted to JCOS for their review and approval
- Once approved by JCOS, cost and construction authorization for projects is established in appropriations bills

5. Cost and Construction Authorization

- Enactment of cost and construction authorizations allows projects to move to the next phase
- New projects move to the preliminary planning stage and renovation projects move to the final design stage
- Authorization defines total project cost and the financing shares to be paid by the state and the institution

6. Final Design/Bids for Construction

- Preliminary and final design documents must be submitted to and approved by DTMB
- Final design plans are used by construction contractors to submit bids

Michigan Capital Outlay Process

7. Project Management

- Bids are managed by the universities and community colleges for their respective projects and by DTMB for state agencies
- If a university or community college does not have the capability of managing their own project, they contract with a private vendor or with DTMB
- Bid results are submitted to both DTMB and JCOS
- Monthly progress reports are required on projects not managed by DTMB
- Construction documents continue to be reviewed through the process by DTMB and SBA for program compliance

8. Financing Construction

- Institutions are required to spend their portion of the project cost before any state funds are released
- Once the institution's share of project financing is exhausted, the state, through the SBA, finances the balance of the project first by issuing short-term "commercial paper" financing, and then through the sale of long-term bonds

Capital Outlay Process

Legislative Action/Appropriation Impact

<u>Legislative Action:</u>	<u>Appropriation Impact:</u>
Planning Authorization	\$100 GF/GP Placeholder
Construction Authorization	\$100 GF/GP Placeholder
Concurrent Resolution to Convey Property/Approve Lease	None
Annual General Government Budget Bill	Cumulative Annual SBA Rent Amount (GF/GP funding)

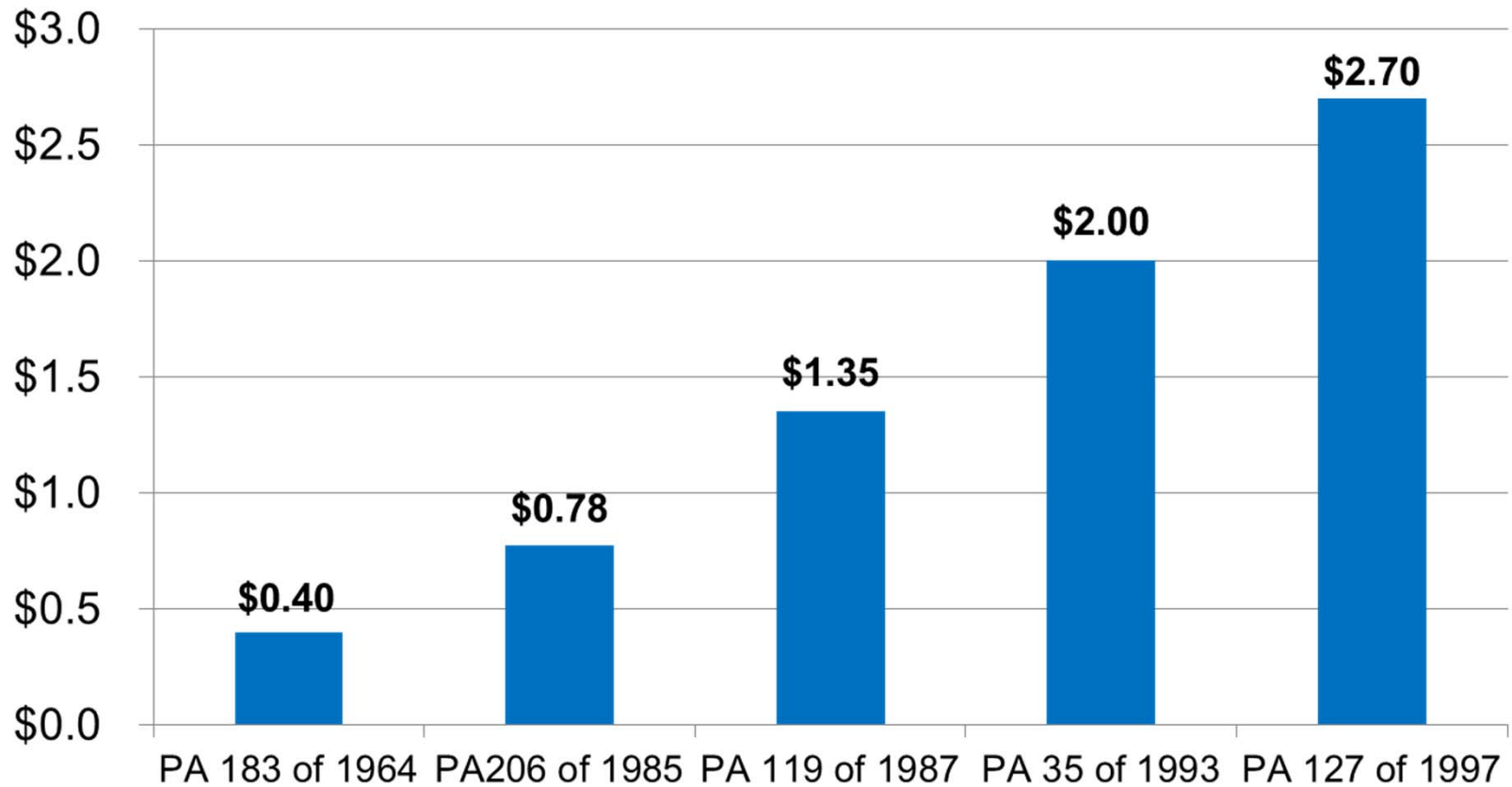
STATE BUILDING AUTHORITY

State Building Authority

- **Created by Public Act 183 of 1964**
- **Governed by a 5-member board of trustees appointed by the Governor (with Senate consent)**
- **Purpose of the SBA is to construct, acquire, improve, enlarge, and lease facilities for use by the state, a university, or a community college**
- **Issues tax-exempt debt to finance major building projects**
- **Carries its own bond rating, but the state's general obligation debt bond rating is factored in**
- **SBA debt obligations are not backed by the “full faith and credit of the state”**
- **By statute, is limited to how much debt can be outstanding at any one time; currently set at \$2.7 billion**
- **Local and intermediate school districts are exempted from the use of SBA monies**

History of State Building Authority Bond Limits

(Dollars in Billions)



SBA Bond Capacity Status

as of December 8, 2011

Current Bond Capacity Status

Authorized Bonding Cap (\$ millions)	\$2,700.0
Less: Net Charges for Prior Bond Issues*	(5,592.6)
Renewed Capacity	<u>4,008.7</u>
Subtotal	\$1,116.1
Less: Current Commercial Paper Projects	(90.8)
Estimated Bond Cap @ 12/31/2011	\$1,025.4

Projected Future Bond Capacity Status

	<u>FY 2012</u>	<u>FY 2013</u>	<u>Total</u>
Available Bond Capacity	\$1,025.4	\$1,000.2	\$1,025.4
Future Projects**	(25.2)	(120.4)	(145.6)
Renewed Capacity	0.0	169.5	169.5
Capacity Carry Forward	\$1,000.2	\$1,049.3	\$1,049.3
Less: Planning Projects			327.1
Remaining Capacity			\$722.2

*Does not include debt related to cost of issuance.

**Planning projects are not included.

Source: State Building Authority

CAPITAL OUTLAY PROJECTS

SBA-Funded Projects

- **Since FY 1992, the Legislature has authorized 174 SBA-funded projects for higher education institutions (includes FY 2011)**
- **87 projects for universities; 87 projects for community colleges**
- **Construction authorizations exceed \$4.0 billion; the SBA share exceeds \$2.5 billion; and the institutions' share exceeds \$1.5 billion**
- **Typically, universities finance 25% of a project's cost and community colleges finance 50%; in recent years, the Governor and Legislature have capped the state match at \$40.0 million; in FY 2011, the state match was capped at \$30.0 million**

State Support for Capital Outlay Projects at Universities FY 1992 to Present

University	State Support
Michigan State	\$247,501,100
U of M – Ann Arbor	210,000,000
Western Michigan	180,160,600
Wayne State	175,945,000
Central Michigan	166,695,000
Grand Valley State	157,525,000
Oakland	145,762,000
U of M – Dearborn	120,425,000
Ferris State	119,050,000
Saginaw Valley State	118,750,000
Northern Michigan	107,891,200
Eastern Michigan	101,480,700
Michigan Technological	93,750,000
Lake Superior State	54,980,800
U of M – Flint	<u>52,569,700</u>
Total	\$2,052,486,100

State Support for Capital Outlay Projects at Community Colleges FY 1992 to Present

Community College	State Support
Delta	\$40,312,000
Jackson	29,700,000
Henry Ford	29,026,400
Lansing	27,760,000
Macomb	27,472,500
Washtenaw	25,900,000
Mott	24,847,500
Kalamazoo Valley	23,694,000
Grand Rapids	23,040,400
Schoolcraft	22,311,900
Mid-Michigan	22,097,250
Wayne County	21,000,000
Monroe County	19,200,000
Northwestern Michigan	18,224,200
Muskegon	12,154,000

Community College	State Support
Alpena	\$12,033,950
Montcalm	11,416,700
Bay de Noc	10,981,800
Kellogg	9,500,000
North Central Michigan	9,181,700
Southwestern Michigan	8,970,000
West Shore	8,467,700
Lake Michigan	8,280,600
Oakland	5,250,000
St. Clair County	4,500,000
Kirtland	4,119,500
Glen Oaks	3,901,500
Gogebic	<u>3,150,000</u>
Total	\$466,493,600

CAPITAL OUTLAY FINANCING

Capital Outlay Financing

Capital construction projects are funded in two ways:

1. Bonding

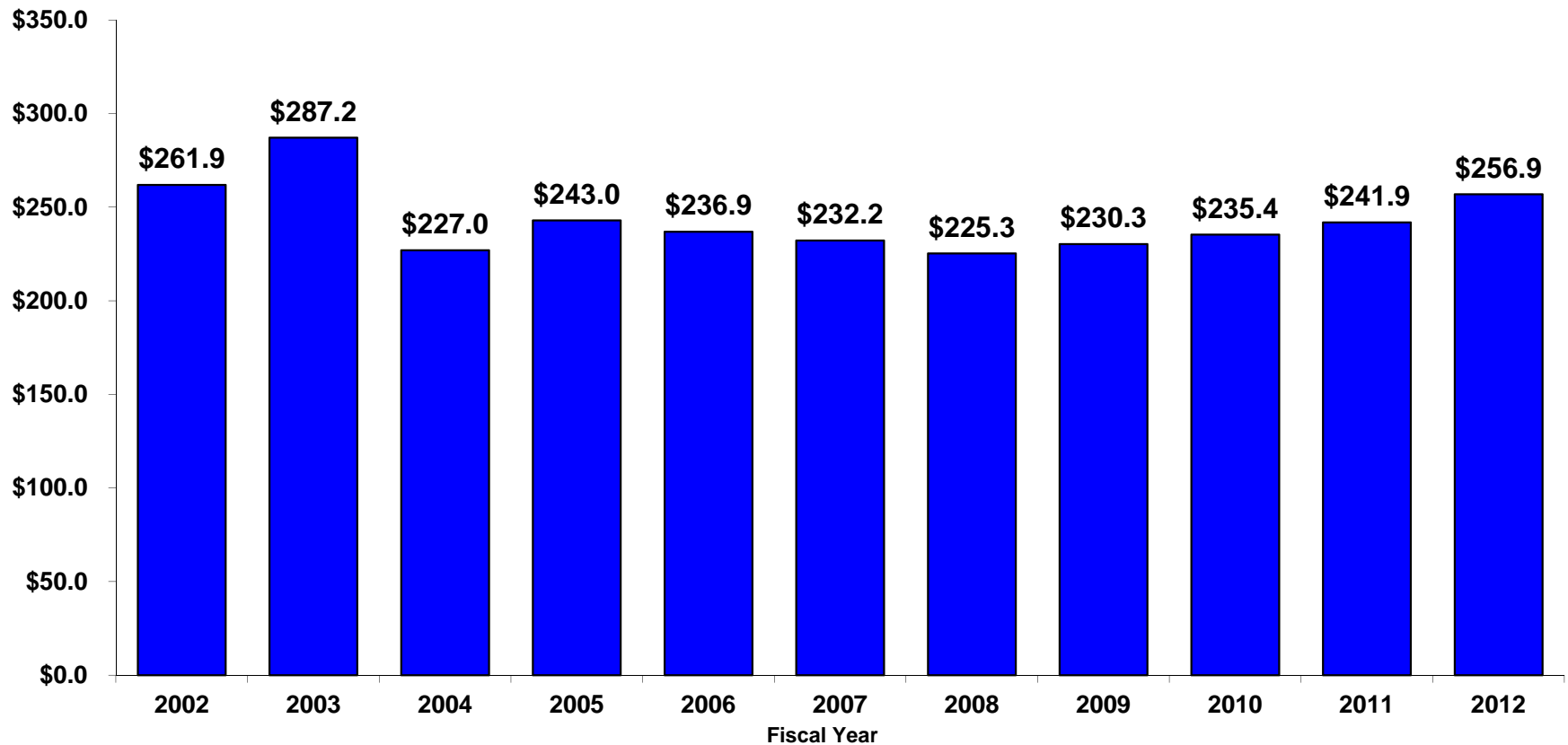
- SBA issues short- and long-term debt
- Legislature commits to paying annual rent until SBA debt obligations are satisfied
- Actual trend of rent payments depends on how many new projects are authorized, whether current bond cap remains the same, and conditions of general construction and bond markets
- Available bonding capacity constantly fluctuates
- Several projects are usually bundled together into one single bond issue

2. Pay-As-You-Go

- Appropriations are made to either meet project costs as they come due or to finance entire project with a lump-sum cash payment upon completion
- This method occurs mostly for smaller routine maintenance and remodeling types of projects

History of SBA GF/GP Rent Appropriations

(Dollars in Millions)



Rent appropriations include rent payments for university, community college, and state agency facilities.

CAPITAL OUTLAY ISSUES

Major Long-Term Capital Outlay Issues

- **Prioritizing project requests**
- **Weighing proposed projects against the SBA bond cap and the state's ability to appropriate general fund dollars for rent payments to the SBA in future years**
- **Balancing the need for financing new projects against the need for financing regular and special maintenance projects for existing facilities**

**For more information about
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