



# Budget Briefing: Capital Outlay

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# Capital Outlay

- Capital Outlay: The budgetary and administrative functions devoted to planning and financing 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, 1984 PA 431, as amended, and the State Building Authority Act, 1964 PA 183, as amended
- Annual budget boilerplate in the Departments of Technology, Management, and Budget and Treasury also governs the capital outlay process

# 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, as amended, the Management and Budget Act, outlines operational practices, procedures, and other duties and responsibilities of the executive and legislative branches and of state agencies and 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 includes 18 members – 9 from the House of Representatives and 9 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; the House will chair for the 102<sup>nd</sup> Legislature
- 10 members constitute a quorum; each chamber must be represented by at least 5 members
- Approval of agenda items requires a “Yes” vote by a majority of the members serving (10)
- At the beginning of each two-year cycle, JCOS adopts formal policies and procedures

# JCOS Duties/Responsibilities

- Adopt formal subcommittee policies and procedures
- Review and evaluate state agency, university, and community college capital outlay project requests, including Michigan Natural Resources Trust Fund projects
- Provide project planning authorization through appropriation bills
- Approve/disapprove project program statements and schematic design planning documents
- Provide project construction authorization through appropriation bills
- Establish total authorized cost of projects and financing sources through appropriation bills
- Annually review outstanding obligations to the State Building Authority
- Approve/disapprove state agency requests to lease private space when annual base costs exceed \$500,000

# Capital Outlay Process

# Capital Outlay Process

- During the 2012 calendar year, the capital outlay process was revised; Public Acts 519 and 430 of 2012 amended the State Building Authority Act and the Management and Budget Act, respectively, to streamline the process
- Major revisions to the process included:
  - Planning authorization, construction authorization, and SBA financing were three separate legislative actions; now construction authorization and SBA financing are done in the same step
  - SBA financing was done through concurrent resolutions; now SBA financing is done through an appropriations act
  - New requirement that construction contracts be awarded to the “responsive and responsible best value” bidders
  - Capital outlay project requests are now reviewed and evaluated by DTMB and the Chair and Vice-Chair of JCOS based on specified evaluation criteria
  - Annual SBA rent (debt service) payments are required to be appropriated when projects are authorized for construction
  - The duration of planning authorizations was revised from 36 months to 24 months



# Capital Outlay Process

## ○ **5-Year Plans**

- State agencies, universities, and community colleges are required by the Management and Budget Act to annually submit 5-year plans to DTMB and JCOS for review
- Each plan must identify capital outlay needs, including new construction, or the addition, renovation, adaptive reuse, and improvement of existing facilities, and the need for special maintenance

## ○ **Review of Plans for Planning Authorization**

- 5-year plans/priority project requests are reviewed and evaluated by DTMB and the Chair and Vice-Chair of JCOS
- Evaluation criteria include: investment in existing facilities and infrastructure, life and safety deficiencies, occupancy and utilization of existing facilities, sustainable design and efficiencies, estimated cost, institutional support, operating costs, impact on tuition, impact on job creation in Michigan, and history of state appropriations to the institutions through the capital outlay process
- Governor determines which priority project requests 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)

# Capital Outlay Process

## ○ **Planning Authorization**

- Approved planning authorizations appear as \$100 line-item appropriations in a budget bill, establish the account, and allow 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 SBA-financed projects is 25% from university funds and 50% from community college funds (state share is currently capped at \$30.0 million)

## ○ **Review and Approval of Planning Documents**

- Program and schematic planning documents for the project must be submitted to DTMB for review and approval and 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 bill

# Capital Outlay Process

- **Construction Authorization**

- Enactment of construction authorizations allows projects to move to the next phase
- Approved construction authorizations appear as \$100 line-item appropriations in a budget bill
- New projects move to the preliminary planning stage and renovation projects move to the final design stage
- Authorization defines total project cost and financing shares to be paid by the state and the institution

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**(3) STATE BUILDING AUTHORITY FINANCED CONSTRUCTION AUTHORIZATIONS**

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Ferris State University - Center for Virtual Learning (total authorized cost \$29,500,000; state building authority share \$22,124,800; university share \$7,375,000; state general fund/general purpose share \$200)

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- **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

# Capital Outlay Process

## ○ **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

## ○ **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

Legislative Action	Appropriation Impact
Planning Authorization	\$100 GF/GP placeholder
Construction Authorization	\$100 GF/GP placeholder; appropriations for projected annual SBA rent payments associated with the projects that are authorized (GF/GP funding)
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 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, SBA is limited to how much debt can be outstanding at any one time; currently set at **\$2.7 billion**

# History of State Building Authority Bond Limits

As needed, the legislature has enacted legislation to raise the bond cap to accommodate new capital outlay project authorizations. After doubling the bond cap between 1985 and 1987, the bond cap was doubled again between 1987 and 1997.

Public Act	Amount (millions)
1964 PA 183	\$400.0
1985 PA 206	\$775.0
1987 PA 119	\$1,350.0
1993 PA 35	\$2,000.0
1997 PA 127	\$2,700.0





# Capital Outlay Financing

# Capital Outlay Financing

Capital outlay construction projects can be funded in two ways:

## ○ **Bonding**

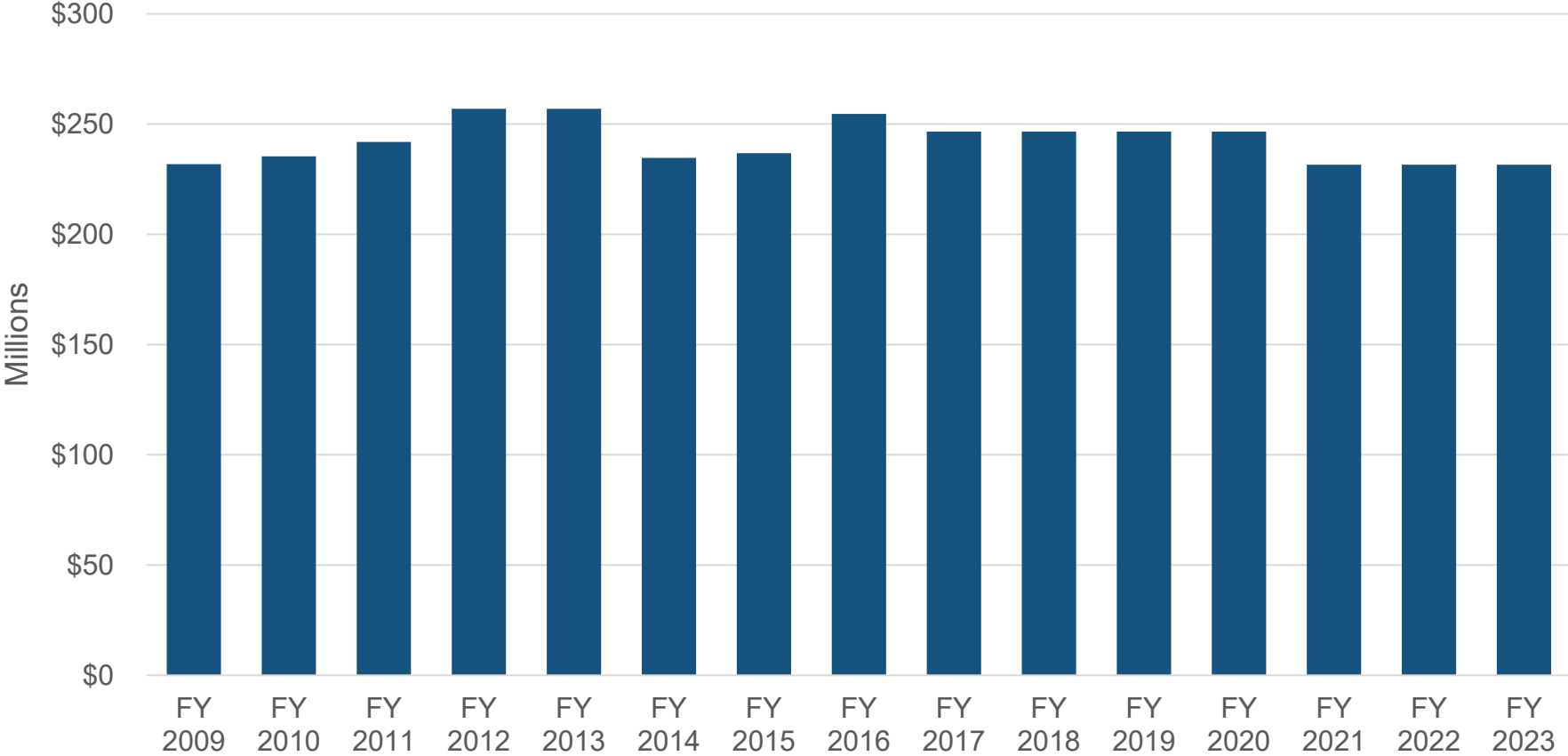
- SBA issues short-term (commercial paper) and long-term (bonds and notes) debt
- Legislature commits to appropriating annual rent until SBA debt obligations are satisfied
- Actual trend of rent payments depends on how many new projects are authorized, whether current bond cap remains the same, and conditions of general construction and bond markets
- Several projects are usually bundled together into one single bond issue

## ○ **Pay-As-You-Go**

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

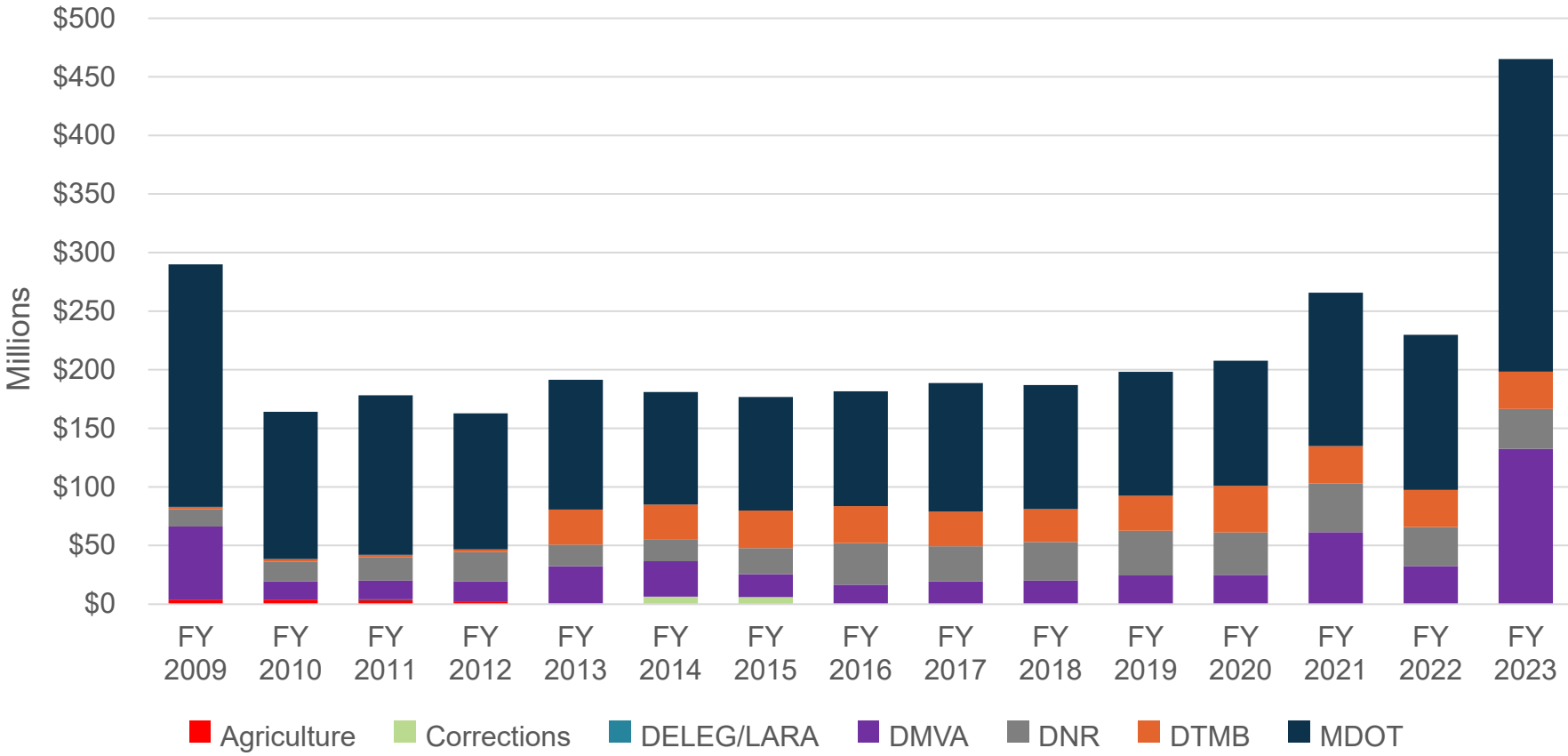
# State Building Authority Rent Payments

SBA rent payments cover debt service on SBA-issued bonds covering the state share of legislatively-approved capital outlay projects for state agencies, universities, and community colleges. SBA rent payments are expected to increase in future years as newly-approved projects require debt service payments. Potential new debt service for approved construction authorizations is estimated to be **\$31.0 million** annually.



# Pay-As-You-Go Appropriations

Appropriations for regular maintenance, remodeling, repair, and additions in state agencies are included in individual budgets. Historically, direct capital outlay appropriations have been made in Agriculture, Corrections, DELEG/LARA, Military and Veterans Affairs, Natural Resources, DTMB, and Transportation. Agriculture, Corrections, and DELEG/LARA have had no pay-as-you-go capital outlay appropriations since FY 2014-15.



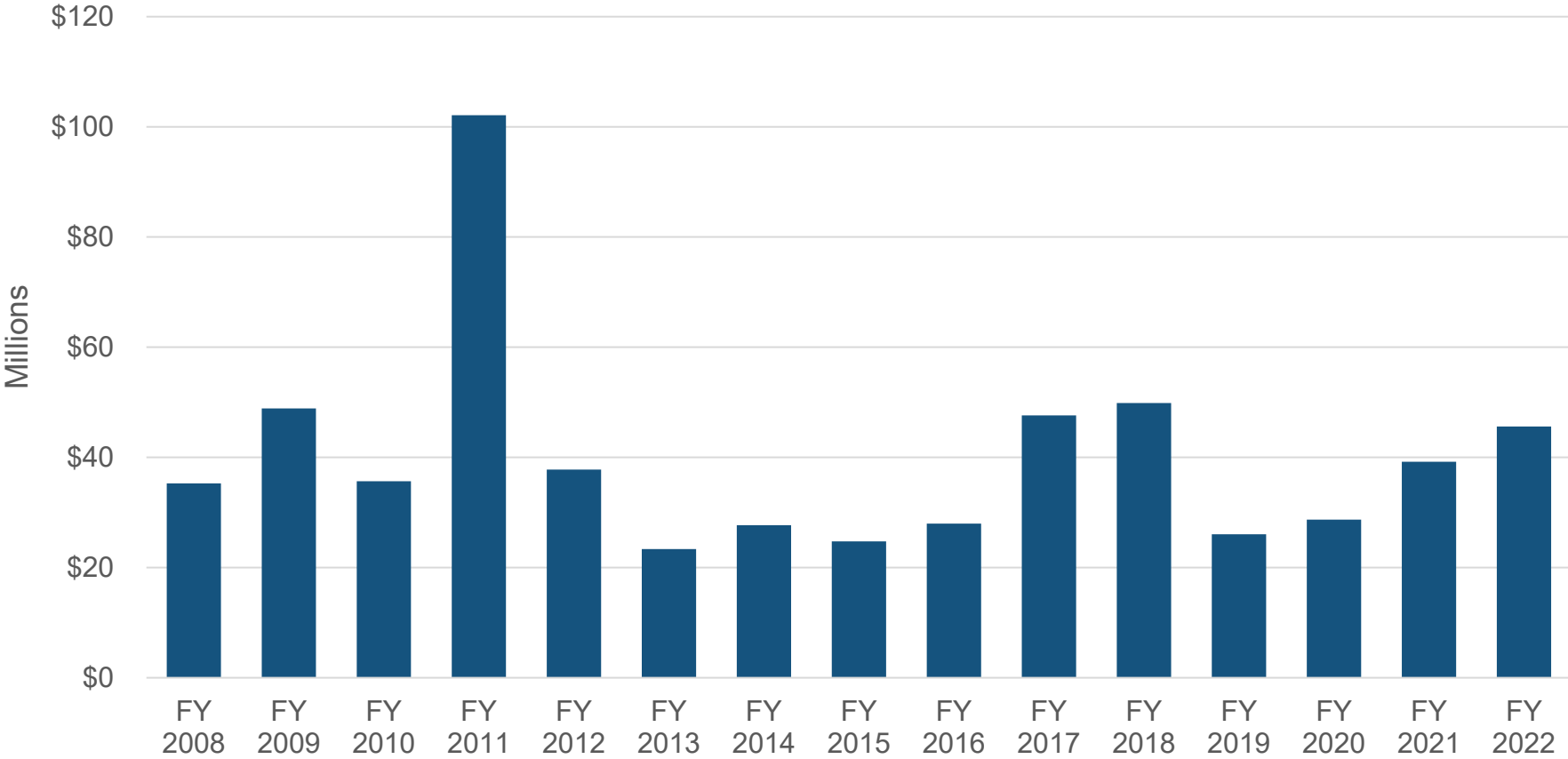
# Capital Outlay Projects

# State Agency Projects

- Michigan Natural Resources Trust Fund acquisition and development projects
- State agency bonded capital projects
- State agency program areas receiving annual appropriations include:
  - State parks and state harbor maintenance
  - Maintenance of state docks and boating facilities
  - Michigan Department of Transportation 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 (i.e., mechanical, electrical, structural, and other upkeep at state-owned facilities)
  - Farmland and open space development acquisition

# Michigan Natural Resources Trust Fund (MNRTF) Appropriation History

Appropriations from the MNRTF are provided for land acquisition and development projects recommended by the MNRTF 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 MNRTF is supported with revenues from state-owned oil and gas mineral resources. Recent appropriation increases are due to statutory changes increasing the available funds calculation.



Note: FY 2010-11 contains one-time revenue from the record-breaking oil and gas lease auction held by the state in May 2010.



# State Agency Bonded Projects – Planning Authorizations

- Since FY 1992-93, a total of **\$2.7 billion** has been dedicated to state agency bonded capital outlay projects
- Currently there are no state agency projects with planning authorizations

# University and Community College Projects

- Since FY 1991-92, the legislature has authorized 219 SBA-funded projects for higher education institutions
- 109 projects for universities; 110 projects for community colleges
- Authorizations exceed **\$5.1 billion**; the SBA share is approximately **\$3.1 billion**; and the institutions' share exceeds **\$1.9 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 **\$30.0 million**

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

University	State Support
Michigan State	\$330,371,100
U of M – Ann Arbor	270,000,000
Western Michigan	225,160,600
Wayne State	190,695,000
Grand Valley	186,525,000
Central Michigan	186,195,000
Oakland	175,762,000
Ferris State	163,675,000
U of M – Dearborn	150,425,000
Saginaw Valley State	156,350,000
Eastern Michigan	131,132,700
Northern Michigan	127,511,200
Michigan Tech	123,450,000
U of M – Flint	81,819,700
Lake Superior State	<u>57,830,800</u>
<b>TOTAL</b>	<b>\$2,556,903,100</b>

Note: Table includes projects that have received planning or construction authorization

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

Community College	State Support		Community College	State Support
Delta	\$48,086,500		Lake Michigan	\$16,757,900
Macomb	39,319,600		Southwestern	16,720,000
Henry Ford	35,726,400		Alpena	15,380,000
Kalamazoo Valley	35,694,000		North Central	12,581,700
Schoolcraft	32,311,900		Kellogg	11,650,000
Grand Rapids	29,407,600		Montcalm	11,416,700
Mott	28,903,600		Bay de Noc	10,981,800
Washtenaw	27,900,000		West Shore	10,619,000
Lansing	27,760,000		St. Clair County	9,400,000
Jackson	27,550,000		Glen Oaks	7,376,500
Northwestern	25,423,200		Kirtland	7,169,500
Monroe	22,950,000		Oakland	5,250,000
Muskegon	22,440,800		Gogebic	<u>3,150,000</u>
Mid Michigan	22,097,300			
Wayne County	21,000,000		<b>TOTAL</b>	<b>\$585,024,000</b>

Note: Table includes projects that have received planning or construction authorization

# Outstanding Planning Authorizations – Universities

- Currently there are no university projects with planning authorizations awaiting construction authorization

# Outstanding Planning Authorizations – Community Colleges

- Currently there are no community college projects with planning authorizations awaiting construction authorization

# Current Construction Authorizations



## Capital Outlay Projects With Construction Authorization Status

<u>Institution</u>	<u>Project</u>	<u>Total Cost</u>	<u>State Share</u>	<u>Inst. Share</u>	<u>Estimated Debt Service</u>	<u>Constr. Auth. Public Act</u>
<b>State Agencies</b>						
DHHS	Caro Center Modernization	\$115,000,000	\$115,000,000	\$0	\$8,625,000	2017 PA 107/ 2019 PA 56
DMVA	New Marquette Veterans Home	97,600,000	34,200,000	0	0	2022 PA 166
DTMB	New Comprehensive State Public Health and Environmental Science Laboratory	260,000,000	260,000,000	0	0	2022 PA 166
DTMB	New State Psychiatric Hospital Complex	325,000,000	325,000,000	0	0	2022 PA 166
<b>Universities</b>						
Ferris State	Center for Virtual Learning	32,000,000	22,125,000	9,875,000	1,659,375	2020 PA 257/ 2021 PA 87
Michigan State	Renovation and Addition of Greenhouses and Dairy Facilities	53,000,000	53,000,000	0	0	2022 PA 166
Michigan Tech	H-STEM Engineering and Health Technology Complex, Phase I	53,100,000	29,700,000	23,400,000	2,227,500	2020 PA 257/ 2022 PA 10
Northern Michigan	Career Tech and Engineering Technology Facility	28,564,000	19,995,000	8,569,000	1,499,625	2020 PA 257
Oakland	South Foundation Hall Renovation	44,200,000	30,000,000	14,200,000	2,250,000	2020 PA 257/ 2021 PA 87/ 2022 PA 10
Saginaw Valley State	Brown Hall Renovation	21,800,000	21,800,000	0	0	2022 PA 166
UM - Ann Arbor	Computer Science & Engineering & School of Information Addition	145,000,000	30,000,000	115,000,000	2,250,000	2020 PA 257
Western Michigan	IF-1 Dunbar Hall Renovation	42,730,000	30,000,000	12,730,000	2,250,000	2020 PA 257
<b>Community Colleges</b>						
Glen Oaks Community College	Campus Renovation	7,300,000	3,475,000	3,825,000	260,625	2020 PA 257/ 2021 PA 87
Henry Ford College	Entrepreneur and Innovation Institute/Technology Building Renovation and Addition	18,850,000	6,700,000	12,150,000	502,500	2020 PA 257/ 2021 PA 87
Macomb Community College	Skilled Trades and Advanced Technology Center Renovation	44,786,200	14,847,100	29,939,100	1,113,533	2020 PA 257
Washtenaw Community College	Advanced Transportation Center	7,900,000	2,000,000	5,900,000	150,000	2018 PA 207/ 2020 PA 66
<b>TOTAL</b>		<b>\$1,296,830,200</b>	<b>\$997,842,100</b>	<b>\$235,588,100</b>	<b>\$22,788,158</b>	

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# Major Long-Term Capital Outlay Issues

- Prioritizing project requests through a consistent evaluation process. While the executive follows a formal scoring process, the legislature uses its own project evaluation and selection process
- Weighing proposed projects against the SBA bond cap and the state's ability to appropriate General Fund dollars for rent payments (debt service) 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 the Capital Outlay budget:

## HFA Resources

<http://www.house.michigan.gov/hfa/CapitalOutlay.asp>

## Contact Information

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