



# Budget Briefing: Capital Outlay

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January 2017

# Briefing Topics

- Joint Capital Outlay Subcommittee
- Capital Outlay Process
- State Building Authority
- Capital Outlay Financing
- Capital Outlay Projects
- Major Budget Topics

# Capital Outlay

- 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, 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

# Key Budget Terms

**Fiscal Year:** The state's fiscal year (FY) runs from October to September. FY 2016-17 is October 1, 2016 through September 30, 2017.

**Appropriation:** Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the Legislature.

**Line Item:** Specific appropriation amount in a budget bill which establishes spending authorization for a particular program or function.

**Boilerplate:** Specific language sections in a budget bill which direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

**Lapse:** Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

# 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 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 service (8)
- 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 appropriation act
  - New requirement that construction contracts be awarded to the "responsive and responsible best value" bidders
  - Capital outlay project requests will now be 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 authorization was revised from 36 months to 24 months

# Capital Outlay Process

## ○ **Master Plans**

- State agencies, universities, and community colleges are required by the Management and Budget Act to annually submit 5-year master 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 master plans/priority project requests are reviewed and evaluated by DTMB and the Chair and Vice-Chair of JCOS
- Evaluation criteria include: investment in 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 and 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 (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 appropriation bills

# Capital Outlay Process

## ○ **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

## ○ **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         |

# SBA Bond Capacity Status

## Current Bond Capacity Status

|  |                |
|--|----------------|
| Authorized Bonding Cap (\$ millions)     | \$2,700.0      |
| Less: Net Charges for Prior Bond Issues* | (6,824.9)      |
| Renewed Capacity                         | 5,084.1        |
| Subtotal                                 | \$959.2        |
| Less: Current Commercial Paper Projects  | (106.6)        |
| <b>Estimated Bond Cap @ 10/31/2016</b>   | <b>\$852.6</b> |

## Projected Future Bond Capacity Status

|                         | <u>FY 2017</u> | <u>FY 2018</u> |
|-------------------------|----------------|----------------|
| Available Bond Capacity | \$852.6        | \$852.6        |
| Future Projects**       | (22.5)         | 0.0            |
| Renewed Capacity        | <u>0.0</u>     | <u>85.8</u>    |
| Capacity Carry Forward  | <b>\$830.1</b> | <b>\$938.3</b> |
| Less: Planning Projects |                | <u>243.3</u>   |
| Remaining Capacity      |                | <b>\$695.1</b> |

\*Does not include debt related to cost of issuance

\*\*Planning projects are not included

Source: State Building Authority

# Capital Outlay Financing

# Capital Outlay Financing

Capital outlay construction projects can be funded in two ways:

## ○ **Bonding**

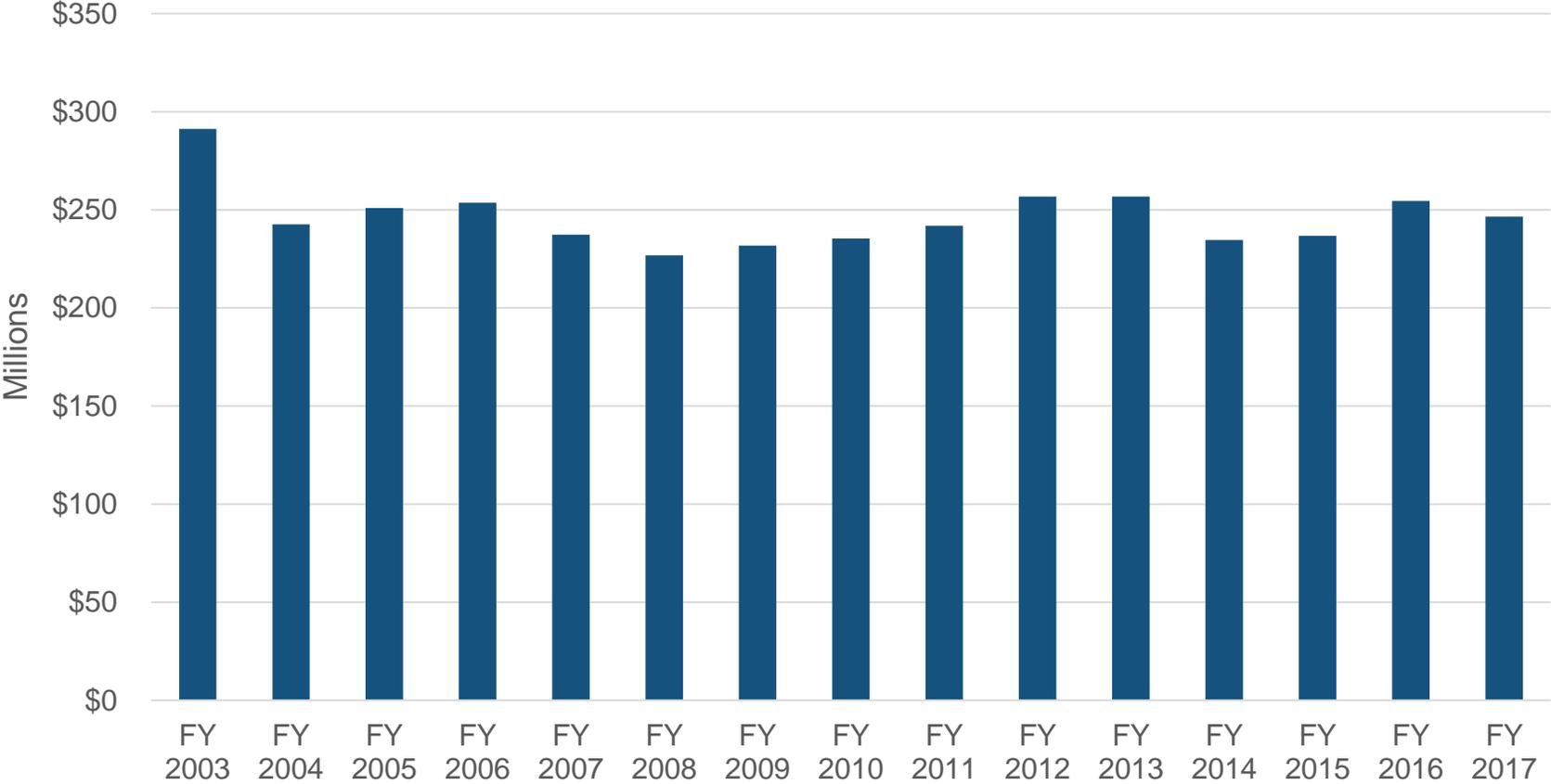
- SBA issues short-term (commercial paper) and long-term (bonds and notes) debt
- Legislature commits to appropriating annual rent until SBA debt obligations are satisfied
- Actual trend of rent payments depends on how many new projects are authorized, whether current bond cap remains the same, and conditions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

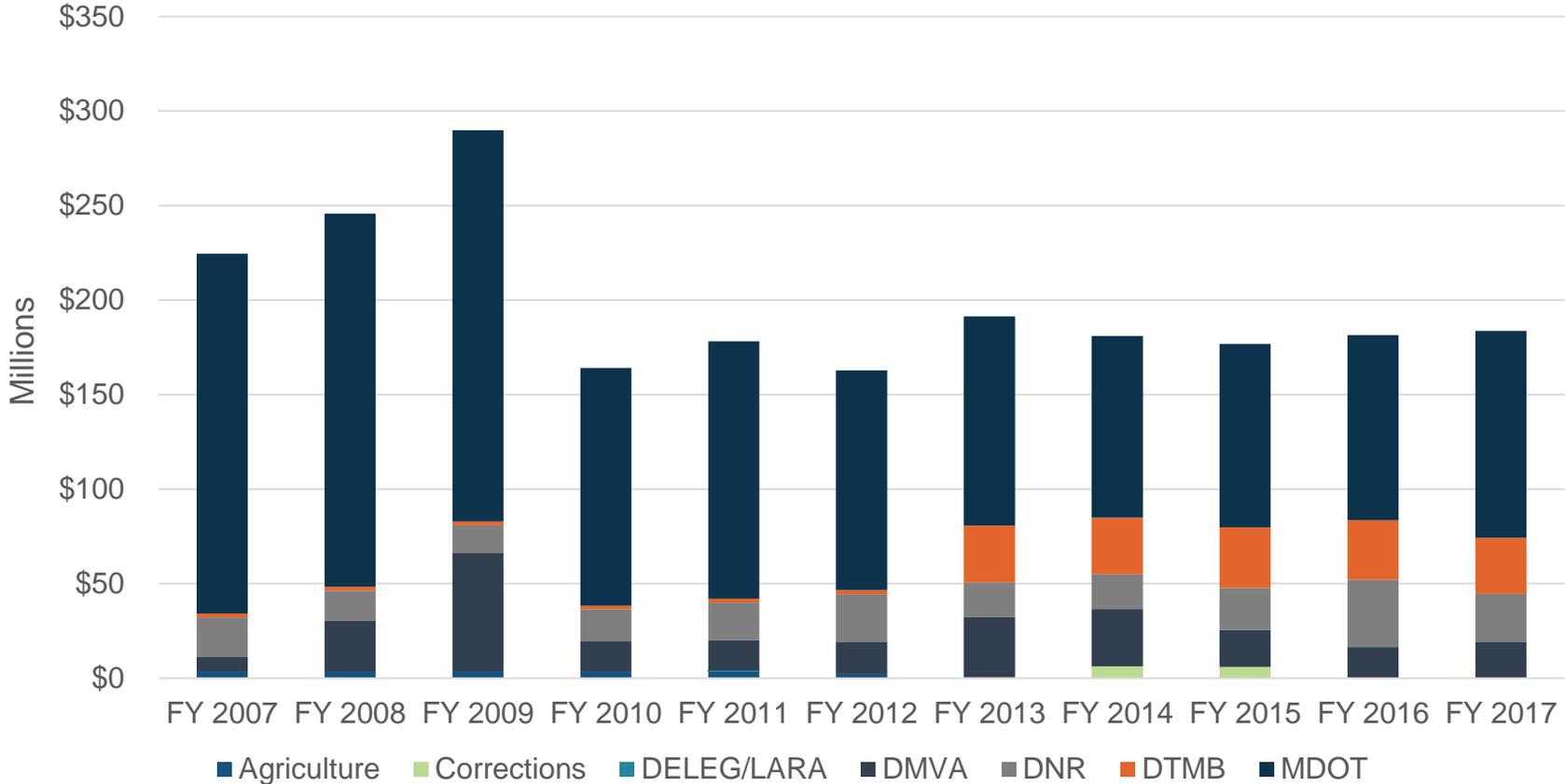
# State Building Authority Rent Payments

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 remain relatively stable in the near term. The state recently approved 16 projects for planning authorization have a state share totaling \$265.8 million, which will eventually add approximately \$21.3 million to annual SBA Rent.



# Pay-As-You-Go Appropriations

Appropriations for regular maintenance, remodeling, repair, and additions in state agencies are included in individual budget articles. Historically, direct capital outlay appropriations have been made in Agriculture, Corrections, DELEG/LARA, Military and Veterans Affairs, Natural Resources, DTMB, and Transportation. While transportation capital outlay expenditures have been reduced, DTMB appropriations for special maintenance statewide have increased since FY 2012-13.



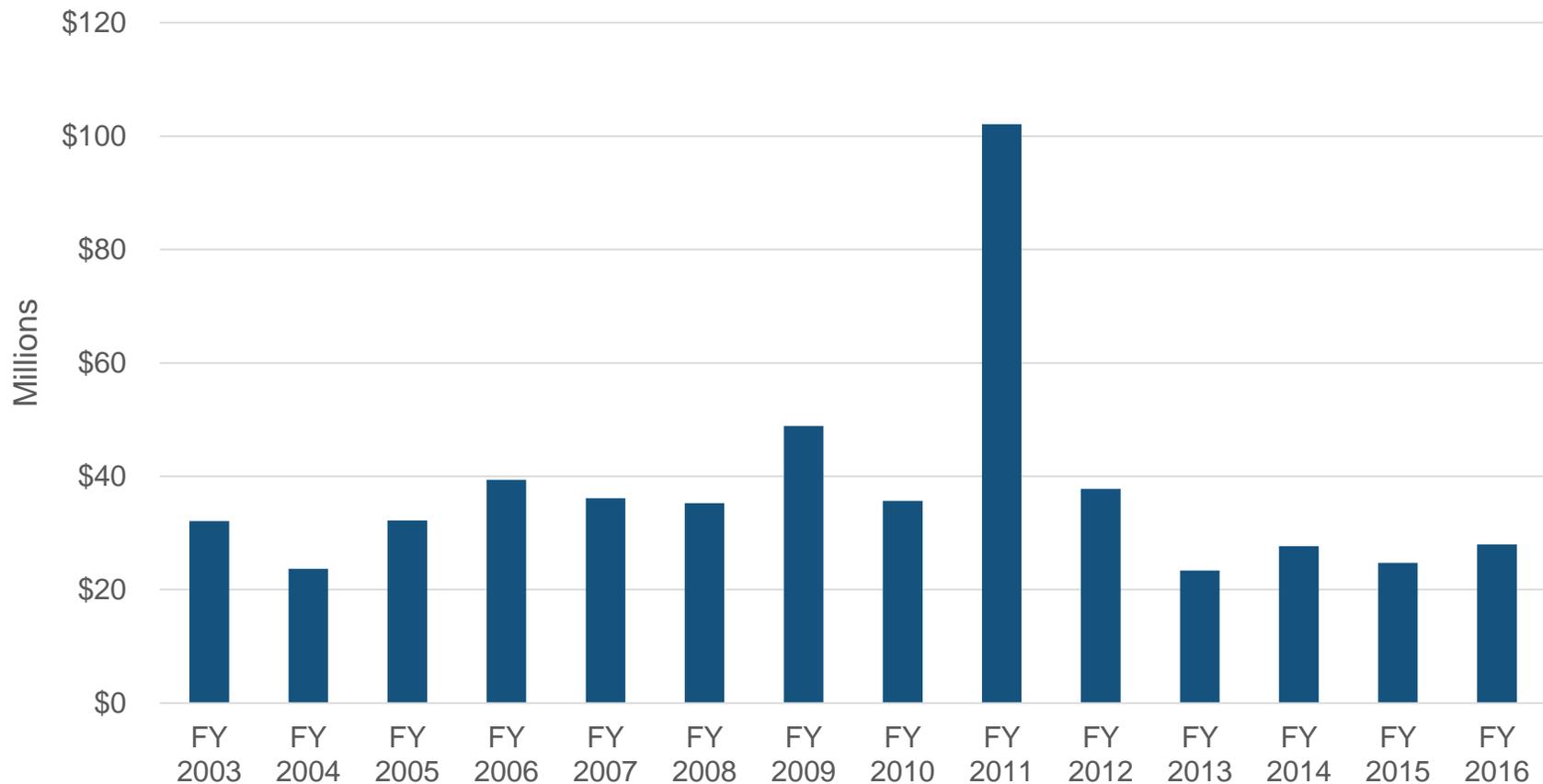
# Capital Outlay Projects

# 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 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 MNRTF is supported with revenues from state-owned oil and gas mineral resources.



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

- Since FY 1992-93, a total of \$1,581.4 million has been dedicated to state agency bonded capital outlay projects
- Two projects recently received planning grants:
  - Michigan State Police (MSP) – 2015 PA 241 authorized to spend up to \$300,000 of existing appropriations on project planning study for a consolidation of the Grand Rapids Forensic Laboratory, Rockford MSP Post, and 6<sup>th</sup> District Headquarters (No project cost estimate currently exists)
  - Health and Human Services – 2016 PA 268 appropriated \$500,000 for a planning grant to determine the most effective modernization plan for the DHHS Caro Center (No project cost estimate currently exists)
- One project recently received planning authorization and is awaiting construction authorization:
  - Natural Resources – 2016 PA 268 provided planning authorization for coolwater rearing hatchery improvements at the Thompson State Fish Hatchery and the Little Manistee Weir. Total project cost is estimated to be \$12.2 million with the entire cost covered by state resources. The project has until September 30, 2018 to receive authorization for final design and construction

# University and Community College Projects

- Since FY 1991-92, the legislature has authorized 192 SBA-funded projects for higher education institutions (includes FY 2014-15 and FY 2015-16 planning authorizations)
- 97 projects for universities; 98 projects for community colleges
- Construction authorizations exceed \$3.8 billion; the SBA share exceeds \$2.5 billion; and the institutions' share exceeds \$1.3 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       | \$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            |
| Ferris State         | 141,550,000            |
| Saginaw Valley State | 124,750,000            |
| U of M – Dearborn    | 120,425,000            |
| Northern Michigan    | 107,516,200            |
| Eastern Michigan     | 101,480,700            |
| Michigan Tech        | 93,750,000             |
| U of M – Flint       | 52,569,700             |
| Lake Superior State  | <u>48,980,800</u>      |
| <b>TOTAL</b>         | <b>\$2,074,611,100</b> |

Note: Table only includes projects that have received construction authorization

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

| Community College     | State Support | Community College | State Support        |
|-----------------------|---------------|-------------------|----------------------|
| Delta                 | \$40,312,000  | Southwestern MI   | \$12,720,000         |
| Kalamazoo Valley      | 29,694,000    | Alpena            | 12,030,000           |
| Henry Ford            | 29,026,400    | Montcalm          | 11,416,700           |
| Lansing               | 27,760,000    | Bay de Noc        | 10,981,800           |
| Jackson               | 27,550,000    | Kellogg           | 9,500,000            |
| Washtenaw             | 25,900,000    | North Central     | 9,181,700            |
| Mott                  | 24,847,500    | West Shore        | 8,467,700            |
| Macomb                | 24,472,500    | Lake Michigan     | 8,280,600            |
| Grand Rapids          | 23,040,400    | Oakland           | 5,250,000            |
| Schoolcraft           | 22,311,900    | St. Clair County  | 4,500,000            |
| Mid-Michigan          | 22,097,300    | Kirtland          | 4,119,500            |
| Wayne County          | 21,000,000    | Glen Oaks         | 3,901,500            |
| Monroe County         | 19,200,000    | Gogebic           | <u>3,150,000</u>     |
| Northwestern Michigan | 18,224,200    |                   |                      |
| Muskegon              | 16,800,800    | <b>TOTAL</b>      | <b>\$475,736,500</b> |

Note: Table only includes projects that have received construction authorization

# Outstanding Planning Authorizations

Outstanding University Planning Authorizations (all approved in 2016 PA 268) have a total state share of \$191.3 million which would result in annual debt service payments of approximately \$15.3 million for 17 years. Universities have until September 30, 2018 to receive authorization for final design and construction.

| University   | Total Cost           | State Share          | University Share     |
|--|----------------------|----------------------|----------------------|
| Central Michigan – Center for Integrated Health Studies            | \$26,000,000         | \$19,500,000         | \$6,500,000          |
| Eastern Michigan – Strong Hall Renovation                          | 39,536,000           | 29,652,000           | 9,884,000            |
| Grand Valley – Health/Medical Sciences Lab and Classroom Building  | 70,000,000           | 29,000,000           | 41,000,000           |
| Lake Superior State – Center for Freshwater Research and Education | 11,800,000           | 8,850,000            | 2,950,000            |
| UM – Ann Arbor – School of Dentistry Renovation and Addition       | 122,000,000          | 30,000,000           | 92,000,000           |
| UM – Dearborn – Engineering Lab Building Replacement               | 90,000,000           | 30,000,000           | 60,000,000           |
| UM – Flint – Murchie Sciences Building                             | 39,000,000           | 29,250,000           | 9,750,000            |
| Western Michigan – College of Aviation Renovation and Addition     | 20,000,000           | 15,000,000           | 5,000,000            |
| <b>TOTAL</b>   | <b>\$418,336,000</b> | <b>\$191,252,000</b> | <b>\$227,084,000</b> |

# Outstanding Planning Authorizations

Outstanding community college planning authorizations (all approved in 2016 PA 268) have a total state share of \$39.8 million which would result in annual debt service payments of approximately \$3.2 million for 17 years. Community colleges have until September 30, 2018 to receive authorization for final design and construction.

| Community College  | Total Cost          | State Share         | University Share    |
|--|---------------------|---------------------|---------------------|
| Delta – Saginaw Center   | \$12,739,000        | \$6,369,500         | \$6,369,500         |
| Kellogg – Regional Manufacturing Tech Center Renovation and Addition | 4,300,000           | 2,150,000           | 2,150,000           |
| Lake Michigan – Napier Academic Building Renovation and Upgrade      | 16,954,600          | 8,477,300           | 8,477,300           |
| Monroe – Renovations to East and West Tech Buildings                 | 7,500,000           | 3,750,000           | 3,750,000           |
| Muskegon – Health and Wellness Center                                | 14,100,000          | 5,640,000           | 8,460,000           |
| Northwestern MI – West Hall Innovation Center Renovation/Expansion   | 14,499,400          | 7,249,700           | 7,249,700           |
| Southwestern MI – Nursing and Health Education Building              | 8,000,000           | 4,000,000           | 4,000,000           |
| West Shore – Technical Center Renovation and Addition                | 4,302,600           | 2,151,300           | 2,151,300           |
| <b>TOTAL</b>   | <b>\$82,395,600</b> | <b>\$39,787,800</b> | <b>\$42,607,800</b> |

# Major Budget Topics

# Major Long-Term Capital Outlay Issues

- Prioritizing project requests through a consistent evaluation 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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