



Background Briefing

CAPITAL OUTLAY

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The fiscal information in this background briefing is based on data through January 1, 2010.

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 which govern 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 (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 20 members – 10 from the House of Representatives and 10 from the Senate**
- **JCOS is chaired by each chamber on a two-year rotational basis**
- **11 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 (11)**
- **At the beginning of each two-year cycle, JCOS adopts formal policies and procedures**

JCOS Duties/Responsibilities

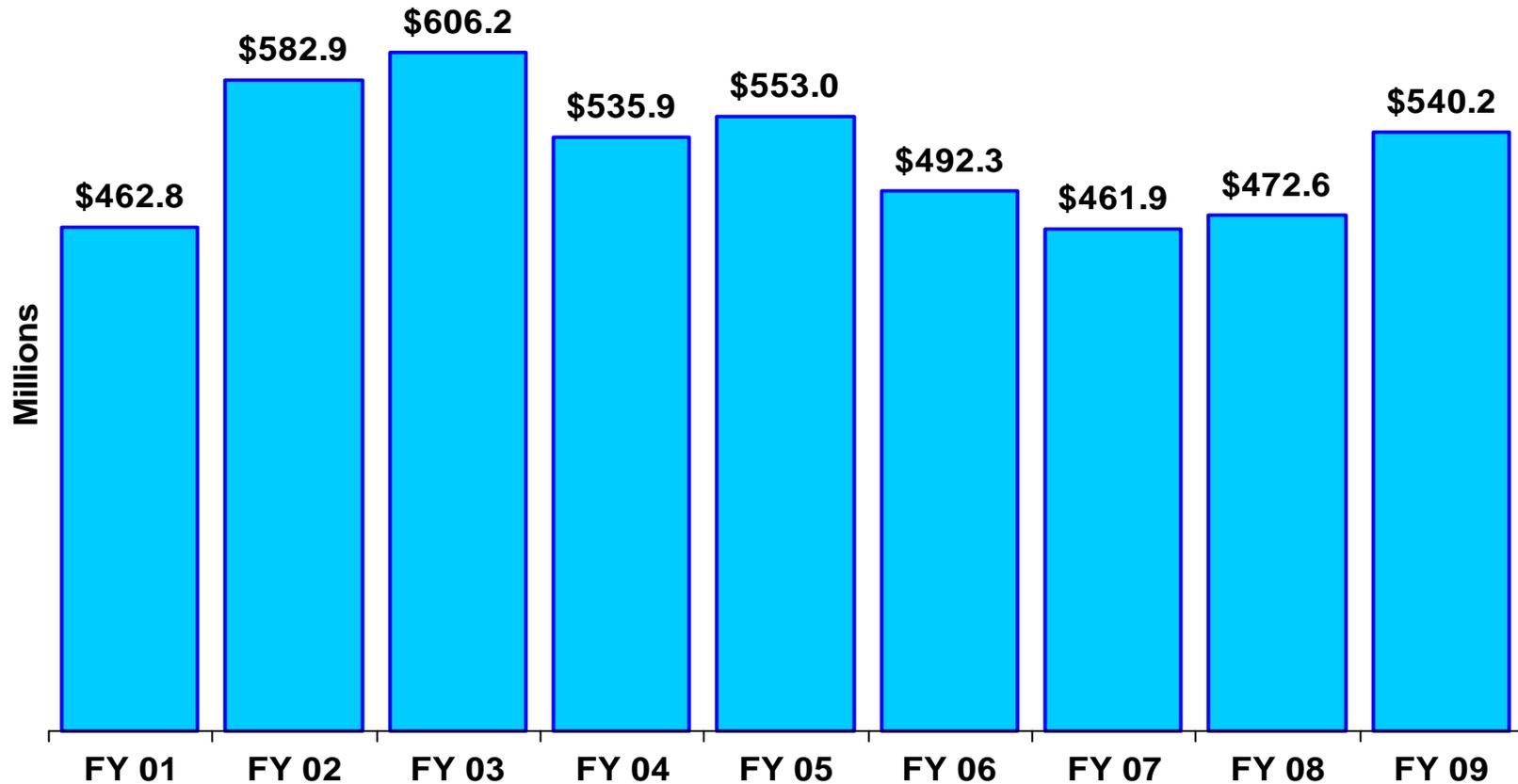
- **Prioritize future state agency, university, and community college project requests**
- **Provide project planning authorization through appropriations bills**
- **Approve/disapprove project program statements and schematic design planning documents**
- **Establish total authorized cost of projects 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 self-funded projects above certain minimums at higher education institutions (in the form of Use and Finance Statements)**
- **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**
- **Appropriate annual rent payments to the SBA (SBA uses the funding to retire debt obligations)**

Other JCOS Duties/Responsibilities

- **Considers other capital outlay appropriation requests:**
 - **Funding for state agency special maintenance needs**
 - **Funding for Natural Resources projects including state parks, wildlife habitat and management needs, boating access sites, harbors, and docks**
 - **Funding for transportation buildings and maintenance garages**
 - **Funding for airport improvement projects**

Capital Outlay Gross Appropriations History

Includes appropriations for SBA rent payments and for state agency projects at the Departments of Agriculture, Corrections, Management and Budget, Military and Veterans Affairs, Natural Resources, and Transportation



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 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 Management and Budget (DMB) 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 DMB 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 DMB for review and approval
- Adjustments may be made by DMB
- Once approved by DMB, 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 DMB
- 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 DMB 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 DMB
- Bid results are submitted to both DMB and JCOS
- Monthly progress reports are required on projects not managed by DMB
- Construction documents continue to be reviewed through the process by DMB and SBA for program compliance

8. Financing Construction

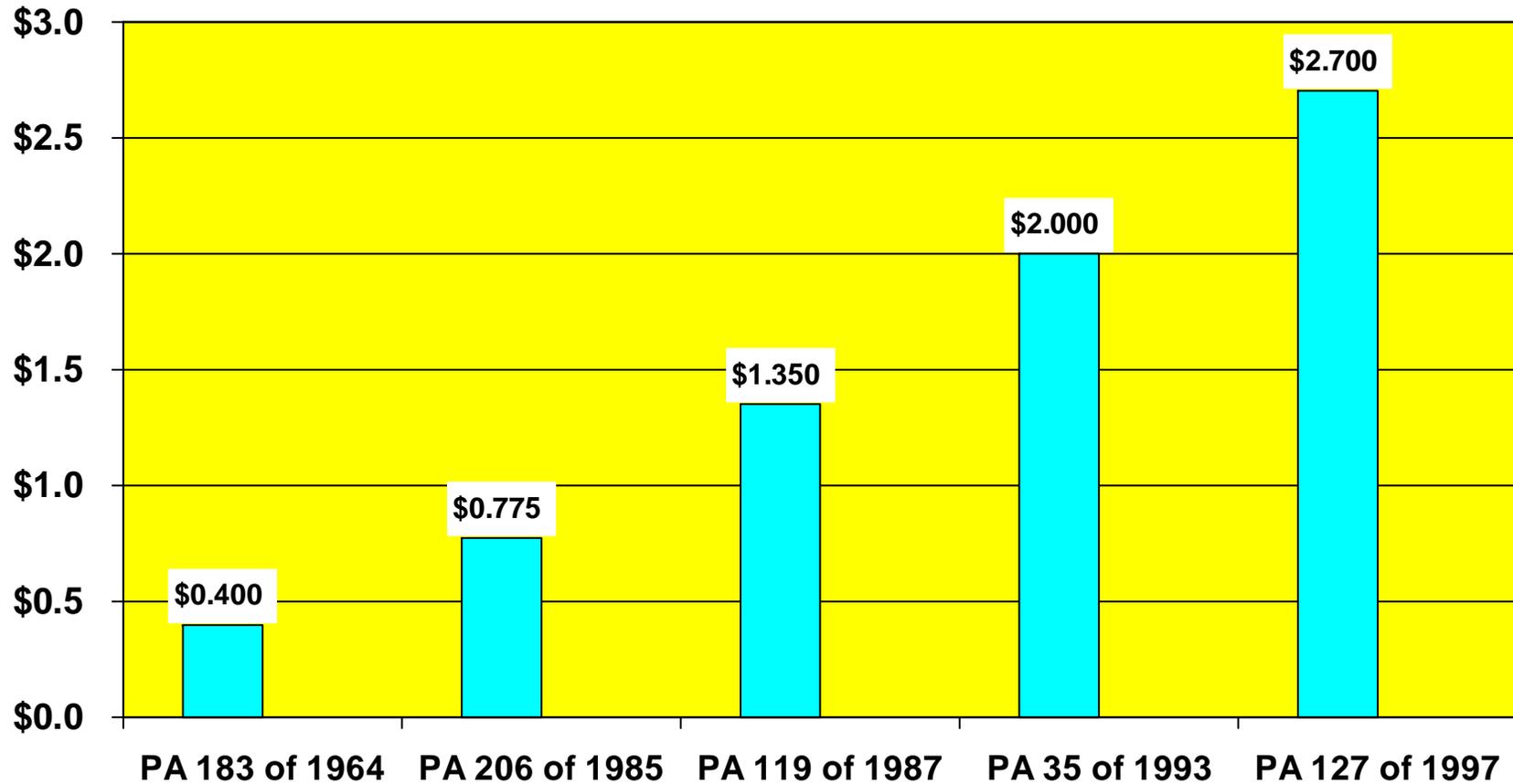
- Institutions are required to spend their portion of the project cost before any state funds are released
- Once the institution's share of project financing is exhausted, the state, through the SBA, finances the balance of the project first by issuing short-term "commercial paper" financing, and then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

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**
- **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 November 12, 2009

Current Bond Capacity Status

Authorized Bonding Cap (\$ millions)	\$2,700.0
Less: Net Charges for Prior Bond Issues	(5,308.6)
Renewed Capacity	<u>3,469.6</u>
Subtotal	\$861.0
Less: current Commercial Paper Projects	(172.2)
Estimated Bond Cap @ 7/31/2009	\$688.8

Projected Future Bond Capacity Status

	<u>FY 2010</u>	<u>FY 2011</u>	<u>Total</u>
Available Bond Capacity	\$688.8	\$663.3	\$688.8
Future Projects*	(25.5)	(229.2)	(254.7)
Renewed Capacity	0.0	175.2	175.2
Capacity Carry Forward	\$663.3	\$609.4	\$609.4
Less: Planning projects			97.4
Remaining Capacity			\$511.9

*Planning projects are not included.

SBA-Funded Projects

- **Since FY 1992, the Legislature has authorized 143 SBA-funded projects for higher education institutions**
- **70 projects for universities; 73 projects for community colleges**
- **Construction authorizations exceed \$3.1 billion; the SBA share exceeds \$2.1 billion; and the institutions' share exceeds \$966 million**
- **Universities finance 25% of a project's cost and community colleges finance 50%**

State Support for Capital Outlay Projects at Universities

FY 1993 to Present

University	State Support
Michigan State	\$217,501,100
U of M – Ann Arbor	180,000,000
Western Michigan	161,860,600
Wayne State	145,945,000
Central Michigan	136,695,000
Grand Valley State	127,525,000
Saginaw Valley State	118,750,000
Oakland	115,762,000
Ferris State	112,450,000
Eastern Michigan	101,480,700
Michigan Technological	93,750,000
U of M – Dearborn	90,425,000
Northern Michigan	82,466,200
Lake Superior State	39,980,800
U of M – Flint	<u>35,942,200</u>
Total	\$1,760,533,600

State Support for Capital Outlay Projects at Community Colleges

FY 1993 to Present

Community College	State Support
Delta	\$30,320,000
Henry Ford	29,026,400
Washtenaw	25,900,000
Mott	24,847,500
Kalamazoo Valley	23,694,000
Schoolcraft	22,311,900
Wayne County	21,000,000
Macomb	20,222,500
Jackson	19,950,000
Monroe County	19,200,000
Northwestern Michigan	18,224,200
Grand Rapids	18,040,400
Lansing	17,785,000
Mid-Michigan	13,245,000
Muskegon	12,154,000

Community College	State Support
Montcalm	\$11,700,000
Bay de Noc	10,231,800
Alpena	9,535,200
Kellogg	9,500,000
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
North Central Michigan	3,967,500
Glen Oaks	3,901,500
Gogebic	<u>2,400,000</u>
Total	\$406,744,700

Capital Outlay Financing

Capital construction projects are funded in two ways:

1. Bonding

- SBA issues revenue bonds, which are limited obligations of the SBA and not general obligations of the state
- SBA is limited by statute to total outstanding debt at any one time of \$2.7 billion; this figure is usually referred to as the “bond limit” or the “bond cap”
- SBA issues short- and long-term debt once the Legislature has enacted a concurrent resolution to convey the property to the SBA and approves a lease agreement between the SBA, the state, and the institution
- Once the property is conveyed to the SBA and the lease agreement executed, the Legislature has committed to paying the annual rent until the SBA debt obligations are satisfied
- Statute requires the rent amount to be at “true market” rental rate, which is established when construction is completed and the facility is independently appraised
- Depending on the appraisal and other market conditions, the lease will be in effect for approximately 15 to 17 years

Capital Outlay Financing

1. **Bonding** (continued)

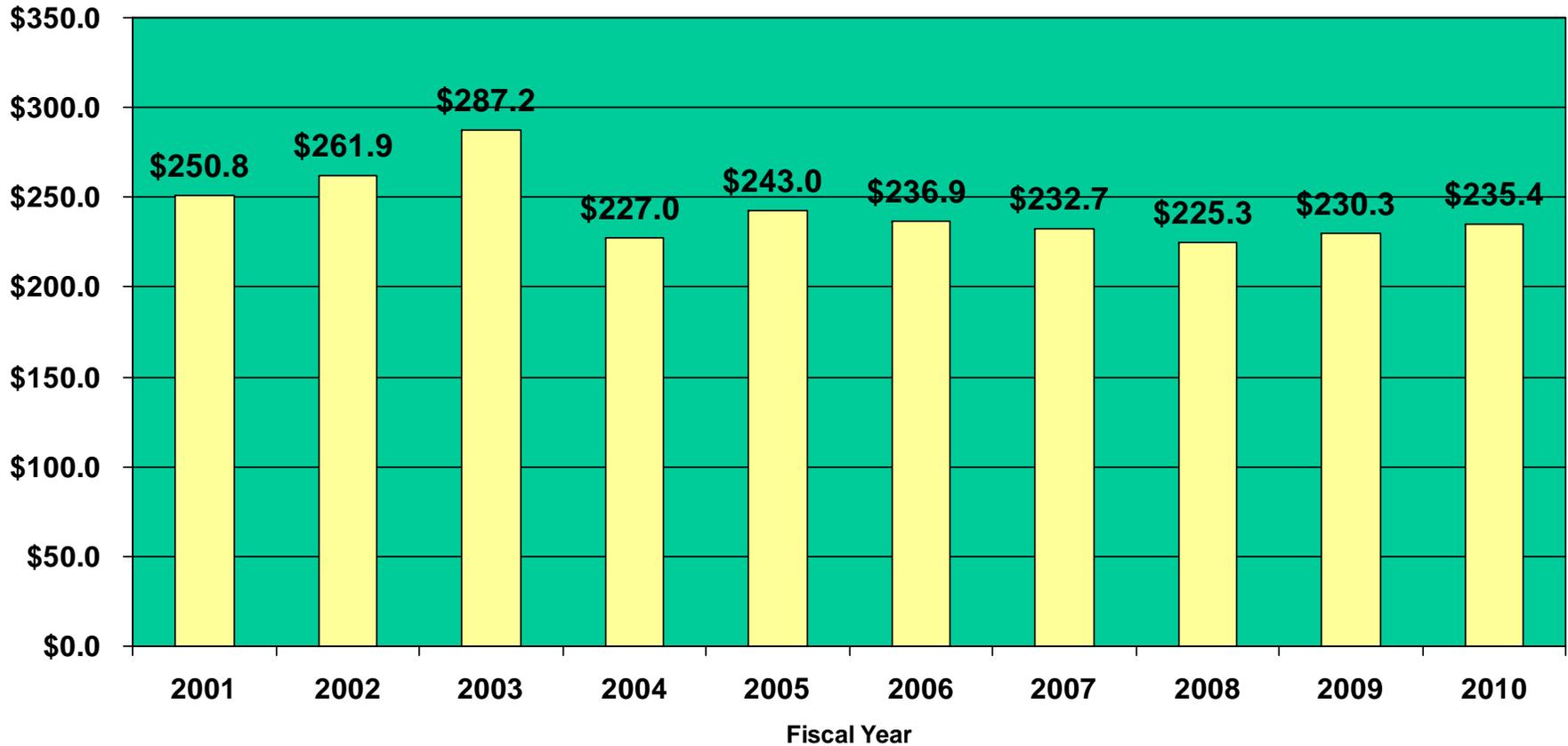
- Once an obligation for a specific project is retired, the property is conveyed back to the state or institution and rent payments terminate
- Annual rent payments to the SBA are financed primarily with state general fund/general purpose dollars and are appropriated in the General Government appropriations act
- Actual trend of rent payments depends on how many new projects are authorized, whether the current bond cap remains the same, and conditions of the 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 the entire project with a lump-sum cash payment upon completion
- This method occurs mostly for the smaller routine maintenance and remodeling types of projects

History of SBA GF/GP Rent Appropriations

(Dollars in Millions)



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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