

## INDIANA STATE BUDGET AGENCY

### Capital Budget Development Process for FY 2012 and FY 2013

Successful capital planning and budgeting requires long-term planning, looking well beyond the current biennium to determine the investments that need to be made to maintain, and possibly extend, the useful life of the asset, and to ensure that capital investments are closely aligned with agency and program goals. To that end, additional emphasis is being placed on the planning and execution of preventive maintenance (PM). With proper long-term planning and timely PM, additional large and/or unexpected capital investments should be minimized.

*The goal of the State's capital budgeting process is to provide appropriate funding for the capital needs that support the State's and individual agency's mission and objectives, while protecting the State's capital investments and reinforcing efforts to improve the effectiveness and efficiency of state government. More specifically, the process has been designed to promote a safe, clean and productive environment for employees and users of state operated facilities and other state assets.*

The accomplishment of this goal will be measured in the following ways:

1. Demonstrated relationship between the agency's proposed capital budget and their mission and program objectives, as defined in each agency's operating budget requests.
2. Effective use of a master plan in the development of an Agency's or Facility's request. Long term, master planning is key to the success of capital budgeting as it ensures proper maintenance of existing facilities, provides transparency into future needs, and requires decision makers to consider and plan for programmatic changes that may impact future capital needs.
3. Detailed calculation of the impact the capital requests will have on future operating costs, and a well-crafted plan of how the agency will manage these costs within available funding. It is of the utmost importance that agencies understand the costs associated with a capital asset throughout its lifecycle, including acquisition, management in-use (including both capital and operating expenses), and disposition.

In summary, proposed projects should contribute to statewide and agency objectives while improving productivity and/or customer service at the lowest practical cost. Or, put another way, the State's capital assets should be maintained as if they were our own personal property, and state tax dollars should be spent as if we were spending our own money.

## I. INTRODUCTION

These instructions set forth the process to request and justify PM, repair and rehabilitation, construction, capital lease rental and other capital projects for FY 2012 and FY 2013. These instructions apply to all state agencies, institutions and other entities, except state universities, planning to make capital budget requests for FY 2012 and FY 2013. Capital budget requests should continue to be submitted by agency, by division or by institution/site. Please note the following areas in particular:

1. Agencies must submit capital budgets through the BudSTARS system. Instructions on data entry can be found in Chapter 4 of the *BudSTARS User Manual*. An updated *BudSTARS User Manual* can be found on the Budget Agency intranet site at:

[http://www.sba.state.in.us/budget1213/Budstars\\_User\\_Manual\\_V7.pdf](http://www.sba.state.in.us/budget1213/Budstars_User_Manual_V7.pdf)

2. These instructions do **NOT** replace the Capital Budget Guidance released in May. Rather, they enhance and augment the guidance. The instructions focus primarily on information that agencies need to submit through the BudSTARS program; however, the capital budget guidance released in May contains a number of assignments to be completed that do not require access to the BudSTARS system. Agencies should pay particular attention to the deadlines included in both the guidance as well as these instructions.
3. Agencies are required by Indiana statute to have a master plan for each major facility or campus. The master plan should be updated annually depending on which projects were or will be accomplished in the current biennium and which projects need to be adjusted and/or added to future years. The master plan must follow the format detailed by the Division of Public Works, including a checklist of PM items to be completed each year and a schedule of prioritized projects. Agencies should focus their efforts on two important components of the master plan: 1) Schedule of PM and repair and rehabilitation projects required to maintain the asset, and 2) Planned agency and program changes that will impact the use or lifecycle of the asset (e.g., change in mission, expansion or disposition plans, etc.). Please note that the Capital Budget Guidance requires agencies to submit their updated master plan(s) (please refer to Section A).

The Division of Public Works will assist agencies in completing/updating master plans, and must approve all plans. If you do not have a master plan, you should submit a request to the Division of Public Works (with a copy to your Budget Analyst) to develop a plan. The status of your agency's master plan(s) should be addressed in your capital transmittal letter.

**Note:** Master Plans must look out at least 10 years, and should include a detailed list of anticipated capital projects, including PM, over that time period. Although capital budget development is a biennial process, the SBA and the Division of Public Works are dedicated to creating a more disciplined budgeting process that includes both long-term planning and additional details about lifecycle costs of state assets. These plans should

be adjusted and updated annually to account for changes in project timelines, needs, costs, funding and/or agency missions and objectives.

The following is a list of some of the factors to be considered when developing a solid master plan:

1. Facility condition assessment
  2. Deferred maintenance impacts (when initiating a smaller project today will prevent the need for more expensive repairs in the future)
  3. Health and safety concerns (previously referred to as Life/Safety factors)
  4. Code compliance (i.e., including Americans with Disabilities Act and other structural codes)
  5. Environmental concerns (will the investment have detrimental or beneficial environmental impacts)
  6. Future operating costs (e.g., utilities)
  7. Agency efficiency (for instance, will a given capital investment allow a more efficient staffing pattern)
  8. Financing structure (if applicable, debt service impacts of spending, given that spending, and therefore, bond issuance is spread over several years)
  9. Matching support from federal, local, or private sources
  10. Agency program needs (i.e., caseload or enrollment trends)
  11. Customer service focus (preference is given to investments that benefit Indiana residents or the clients of agencies directly)
  12. Statewide space needs considerations (for instance, considering whether an agency could co-locate with another, rather than building new space)
  13. Strategic priorities (does the investment support state government core missions such as economic development and job creation, education, public safety, and health)
  14. Long term plans for demolition, sale or disposition of assets (avoidance of investments in structures that will not be needed in a few years)
4. All project requests must be prioritized. Generally, projects should be prioritized according to agency objectives as well as statewide objectives established by the Budget Agency (See "Prioritization Criteria" within Section V). An agency may deviate from the statewide criteria if it includes a specific description of the alternative agency criteria/objectives/metrics used to prioritize capital projects. The criteria used to prioritize projects should be addressed in your capital transmittal letter.

Moreover, agencies should prioritize projects from previous budgets that have not yet been initiated (please refer to Section B of the Capital Budget Guidance). Agencies should assume for the purposes of budget development that projects not yet initiated will NOT have funding available in the future. Rather, the appropriations have already been or will be reverted, so agencies should seek new appropriations for all projects, regardless of whether or not they received an appropriation in prior budgets. **Please note that this is a change from prior budgets.** Agencies will not have access to funds for projects that received appropriations in the FY 2008-2009 or FY 2010-2011 biennia budgets if they

have not already been initiated prior to June 30, 2011 (meaning approval by the Budget Committee, or by the State Budget Agency via administrative action for projects of less than \$100,000).

It is important that agencies prioritize previously planned projects along side new projects, as agency priorities or circumstances may have changed since the last budget development process. For instance, the Family and Social Services Agency may have received an appropriation to build a new state hospital, but the demographics of the current population may now call for the expansion of an existing facility instead. The prioritization of all uninitiated projects, whether they have received an appropriation in a prior budget or are being requested for the first time, should be included in your capital transmittal letter.

These changes are explained in more detail in each appropriate section of the instructions. If you have questions regarding any part of these instructions, please contact your Budget Analyst.

## II. DEFINITIONS

Each capital budget request must fall within one of the three categories defined below:

1. **Preventive Maintenance (PM)** – The SBA defines PM as expenditures for goods, supplies or services related to the routine upkeep of existing structures and other assets. PM expenditures do not result in a function, use or mission change, and do not collectively constitute a repair and rehabilitation or construction project. For instance, lumber, building supplies and paint needed to repair minor damage resulting from ordinary wear and use of an existing structure would be appropriately considered PM.
2. **Capital Project** – There are three types of capital projects as follows:
  - **Capital Lease Rentals** – This category includes payments made to a financing authority under the terms of one or more leases or similar agreements as consideration for use and occupancy of a capital asset financed by the financing authority. For example, the Indiana Finance Authority (IFA) financed construction of a new state hospital for use by the Family and Social Services Administration (FSSA). Under the indenture securing the bonds, the Indiana Department of Administration (IDOA) is responsible for making lease payments to the IFA. Those lease payments are capital lease rentals.
  - **Repair & Rehabilitation (R&R)** – This category is defined as a broad range of expenditures (generally grouped together as a project) related to the infrequent upkeep or upgrading of existing structures and other fixed assets to maintain or increase their utility. This may result in a function, use or mission change of an asset. For instance, expenditures necessary to upgrade a cold storage facility so that it could be used as a vehicle repair facility would be considered an R&R project because it would result in a major upgrade and mission change for an existing structure.
  - **Construction** – This category is defined as a broad range of expenditures (grouped together as a project) resulting in the creation of a new fixed asset such as a building or structure which may be free-standing or affixed to an existing asset. For example, expenditures necessary to construct a new State Police Post (whether it resulted in an additional new structure or replaced some existing building) would be considered a construction project.
3. **Other Capital Requests** – This category includes expenditures that do not fall within the foregoing definitions and for which incorporation into the capital budget is in the best interest of the State. These requests may be submitted to the SBA with appropriate supporting information. For example, expenditures required to acquire land would be considered a project, and may be included in your capital budget request.

All other requests must be made in your operating budget submission.

### III. CAPITAL TRANSMITTAL LETTER

The agency must submit a Capital Transmittal / Overview Letter to the SBA. Due to restraints within the BudSTARS program, the agency overview letter should be electronically submitted to your budget analyst separate from BudSTARS. The letter should include the following:

- A general statement of the condition of the agency's physical plants – include a discussion of progress made in the current biennium and special challenges facing the agency for the next biennium
- A summary of the agency's current mix of owned (including IFA bond-financed) vs. leased (rented) facilities – include a discussion of how the decision is made whether to own or lease facilities
- A description of how each of the agency's facilities fits into the agency's current and long-term plans
- If current master plans are not available for all facilities, an explanation as to the status
- A prioritized list of projects, including both newly requested projects as well as projects that received appropriations for the FY 2008-2009 and/or FY 2010-2011 biennia (please refer to Section B of the Capital Budget Guidance)
- A discussion of the criteria used to prioritize requested projects
- An overview of the agency's current utilization of offender labor, including the use of offenders for the maintenance and upkeep of facilities

### IV. PM BUDGET REQUEST

Enter the PM request as the first item on the Capital Project Request Screen (See the *BudSTARS User Manual* – Chapter 4). A priority number does not need to be assigned to a PM request. For those agencies with multiple PM appropriations, list all PM requests for the agency with the appropriate division or institution. For example, the Department of Correction should submit a PM request for each correctional institution.

**Generally, your PM budgets for FY 2012 and FY 2013 should not exceed your PM appropriation for the current FY 2010 and FY 2011 biennium.**

Your PM request may exceed your FY 2010 and FY 2011 PM appropriation if a new facility that did not receive a PM appropriation in the current biennium is included in the request. For simplicity, increased PM expenditures associated with repair and rehabilitation or construction projects to be completed, or which commence operation, in FY 2012 or FY 2013 may be incorporated into the PM Current Services budget request, but the increased amount should be discussed and justified in the narrative.

**Note:** The Capital Budget Guidance requires agencies to submit PM spending plans by August 2<sup>nd</sup> (please refer to Section D). Your agency's PM spending plan(s) should further outline PM needed to maintain your facilities' capital assets. Inadequate maintenance of capital reduces the asset's ability to meet agency needs efficiently and effectively and also causes a decline in capital asset value. Agencies and facilities that have failed to use PM funds in prior years will

have their requests for R&R and construction projects prioritized below those agencies and facilities that have maintained their existing assets. PM, if properly executed, should minimize the need for more expensive repairs and capital projects in the future.

## V. CAPITAL PROJECT REQUEST

As discussed in the Capital Budget Guidance, it is unlikely that funds will be available in the FY 2012-2013 budget for new construction projects. Agencies are asked to focus their capital project requests upon facility needs in line with the priorities outlined below.

Requests for individual projects (capital lease rentals, R&R, and new construction) will be entered on the Capital Project Screen. Narratives will be used to define and justify requests and explain how the projects were prioritized. Detailed instructions for completing this screen can be found in the *BudSTARS User Manual*, Chapter 4.

Note: The information to be entered into BudSTARS can and should be derived from the information agencies are required to compile as part of the Capital Budget Guidance (please refer to Section C). If Form A is completed thoroughly and properly, then agencies should be able to enter certain pieces of this information into BudSTARS to meet the requirements of this section. Agencies should refer to Section C of the guidance if they have any questions.

### Prioritization Criteria

The SBA has established statewide objectives as follows to assist agencies in setting priorities for requested projects. The SBA will consider the following order of priority for statewide objectives when balancing with agency priorities. Please indicate on the narrative screen the priority category that applies to each project request.

1. **Lease Rentals:** If your agency is required to pay capital lease rentals, these requests must be listed as the top priorities for capital funding. Identify the lessor to which the lease payments will be made, and briefly describe the project which is subject to the lease. In addition, please include the following cost information: Principal, Interest, Replacement Reserves, Operation & Maintenance, and Total. **Agencies must consult with IFA in order to acquire this information.**

NOTE: Lease rentals should NOT be included in R&R requests, and should be a separate line item when entered into BudSTARS. This will ensure that time sensitive lease payments can be made without waiting for State Budget Committee approval.

You may prioritize remaining requested projects as you believe best meets your agency's needs. That said, projects that are included in an agency's or facility's master plan will be prioritized above those projects that are not included.

2. **Master Plan Projects:** If your master plan is not updated, accurate, or tied to your objectives, contact the Division of Public Works to discuss the status of your master plan.

It should again be emphasized that this document should be updated annually to reflect changes. Projects included in the master plan will be prioritized in the following order:

- a. **Health and Safety:** Agencies should propose projects designed to improve the health and safety of those who live, work and visit state owned and operated facilities. This includes sewer, water, energy, fire prevention, removal of hazardous materials, and other projects designed to modernize campus utilities and promote a clean environment or to fix dangerous conditions. An agency should first check with the State Revolving Fund (SRF) office under the IFA to determine SRF eligibility before including any sewer and water projects. These projects will be given a higher priority in the budget process.
  - b. **State or Federally Mandated:** In some cases, a project may be mandated by statute or by a state/federal licensing entity. This is often in the area of code compliance and should be incorporated into the master plan.
  - c. **Renewal & Replacement (Preservation):** Projects designed to repair existing facilities will be given a higher priority than projects designed to expand or create new facilities. This includes projects to replace or repair worn or obsolete building systems and restore facilities to good working order. Major preservation projects must be identified in, and be consistent with, a facility master plan.
  - d. **New Facilities:** The SBA will consider requests for construction of new facilities; however, such requests will generally receive less support than requests designed to promote health and safety and maintain existing facilities.
3. **Projects Not Included in the Master Plan:** Any request not included in the master plan will be prioritized below those in the master plan except in special circumstances, such as emergencies caused by natural disasters or other unforeseeable events.<sup>1</sup>

**It is of the utmost importance that agencies create or update their master plans to include requested Capital Projects if they want the projects to receive higher priority in capital budget development.**

### **Problem / Need Statement / Justification**

This statement will be entered on the narrative screen. Briefly explain the need for the proposed project. Identify whether it relates to a current or a proposed new initiative, and explain how it will improve the effectiveness and productivity of the agency, protect the agency's existing capital investments, or enhance/expand services. Explain how you assigned the priority ranking, especially by linking it to your agency's mission, objectives, and key performance indicators. Finally, explain the financial analysis performed to determine that the proposed project has an appropriate scope and cost. This could include a cost-benefit analysis, a net present value (NPV)

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<sup>1</sup> When such emergencies or other unforeseeable events happen, agencies are expected to re-prioritize projects that have received appropriations so that health and safety issues are addressed within an agency's or facility's existing appropriations.

calculation, life cycle costing, or other types of analytical methods as appropriate. Please contact your Budget Analyst with questions.

Include in the narrative any additional information necessary to explain the estimate of total operating costs, or decreased operating costs, that you expect to result from the proposed capital project. This estimated impact should be calculated by facility for each fiscal year, with a grand total for the agency for each fiscal year.

### **Solution Alternative and Estimated Cost**

This statement will be entered on the narrative screen. When feasible, document at least one alternative solution which you believe addresses the Problem / Need discussed above. The alternative should be described in enough detail to demonstrate that serious analysis was devoted to allow for proper ranking and consideration. Include a cost estimate for the alternative. Again, results of a cost-benefit analysis, a net present value (NPV) calculation, life cycle costing, or other types of analytical methods should be included. Since capital lease rentals represent contractual obligations, an alternative for these requests need not be provided.

### **Other Information to include on the Narrative Screen**

- **Related Projects** – Indicate any current or proposed projects which affect or are affected by this proposed project request. Explain how the projects are related, and the impact of funding only one, some, or all of the projects. Use the Division of Public Works project number(s), if available.
- **Deferral Consequences** – Note the cost, policy, or programmatic consequences of deferring (postponing) this project request as it relates to the Problem / Need Statement described above.
- **Previous Project Appropriations** – This category applies only to the continuation of R&R and new construction projects for which additional funding is requested. Enter the fiscal years and amounts appropriated and allocated for the requested project.

## **VI. COST ESTIMATE**

Enter a project cost estimate for your project request by using the following applicable categories on the cost screen. Please cite any cost quotes submitted with Form A, which was outlined in Section C of the Capital Budget Guidance.

- Site Investigation
- Land Acquisition
- Site Development
- Hazardous Materials Abatement
- Design Fees (10% of estimated construction costs)
- Construction Costs

- Contingency
- Furnishings – Equipment
- Utilities
- Capital Lease Payments
- Other

The source of the estimate should be documented on the narrative screen.

**Note:** The Capital Budget Guidance requires agencies to submit proposed capital projects (using Form A) by September 3<sup>rd</sup>. Insufficient details supporting your request will negatively impact the ability to prioritize your project(s) against other state priorities, potentially placing funding for your project(s) at risk.

## **VII. FUNDING (Appropriation Authorization)**

The appropriation authorization screen is used to provide the funding information for the projects. Enter the percent of the funding that will be spent in year one and year two. Please enter 50% and 50% if you are not sure. If the agency has a dedicated legal fund to pay for capital projects, the dedicated legal fund should be marked as the funding source. If unsure, choose the General Fund.

## **VIII. LEGAL FUND BALANCE STATEMENTS**

For all projects with dedicated funding, you must ensure that the legal fund balance report in BudSTARS is accurate and balances to the State Auditor's records (PeopleSoft). Projects funded partially with the General Fund and other dedicated funds must demonstrate that they are using their dedicated funding sources to the fullest extent. The purchasing and redeeming of investments should not be included in the expenses or the revenues when preparing the legal fund balance report; however, the amount invested should be included in the beginning and ending balances. If you have any questions about the need for a legal fund balance statement for your agency, please contact your Budget Analyst.

**Note:** Legal Fund Balance Statements reflect the revenue and expenditures of all funds within the legal fund. This may include funds that are budgeted by other agencies.

## **IX. SUBMITTING CAPITAL BUDGET REQUESTS**

The capital and operating sections will be submitted as one budget. Follow the instructions in the *BudSTARS User Manual* for directions on submitting your budget. **Please submit an electronic version by the deadline of September 24<sup>th</sup>.**

### **Key Tasks and Deadlines:**

<b>On-going</b>	Develop or update master plan working directly with IDOA Public Works
<b>August 2<sup>nd</sup></b>	PM spending plan (Form B) submitted to SBA analyst and IDOA Public Works (from Capital Budget Guidance)
<b>September 3<sup>rd</sup></b>	Submission of master plans, prioritization of capital projects, and submission of Form A for all capital project requests to SBA analyst and IDOA Public Works
<b>September 24<sup>th</sup></b>	Submit Capital Transmittal / Overview Letter (Section III) to your Budget Analyst
<b>September 24<sup>th</sup></b>	Submit FY 2012 and FY 2013 Agency Budget in BudSTARS