



State of Indiana

State Budget Agency
State House Room 212
Indianapolis, IN 46204

Eric J. Holcomb, Governor

Joseph M. Habig, Acting Director

May 1, 2024

Dear Colleagues,

The goal of our capital budgeting program is to provide safe, well-maintained, and efficient facilities for the citizens we serve and the state employees that work in them each day. The accomplishment of this goal is measured in the following ways:

1. Demonstrated relationships between the agency's proposed capital budget and its 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 capital requests. 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 affect future capital needs.
3. Detailed calculation of the impact that the capital requests will have on future operating costs and ongoing maintenance needs and a plan on how the agency will manage these costs within available funding. Agencies must understand the costs associated with a capital asset throughout its lifecycle, including acquisition, management in-use, and disposition.

The following instructions will explain everything your agency needs to prepare and submit to meet the requirements for consideration in the capital section of the upcoming biennium budget. My staff and I are available to assist and answer any questions that you may have about the instructions or process.

Respectfully,

Joseph M. Habig
Acting State Budget Director

cc: Eric J. Holcomb, Governor
Cristopher R. Johnston, OMB Director

CAPITAL BUDGET SUBMITTAL

These instructions set forth the process to request and justify preventive maintenance (PM), repair and rehabilitation (R&R), line-item projects, capital lease rental, and other capital projects for FY 2026 and FY 2027. These instructions apply to all state agencies, institutions, and other entities, except state universities, planning to make capital budget requests for FY 2026 and FY 2027.

This development cycle, SBA will be providing all direct entry for capital projects into Hyperion (budget system). This will provide your staff with more time to develop and justify capital needs through the online questionnaire portal. However, to ensure compliance with the statutory deadline and give adequate data entry time for SBA, your agency's capital budget must be submitted via the methods described below no later than Friday, August 16th. A summary of key deadlines can be found in Section VII (Capital Budget Submission Deadlines).

The following documents and method of submission are explained in further detail in the sections below:

- Section I – Definitions
- Section II – Capital Master Plan
- Section III – Capital Transmittal Letter
- Section IV – Preventive Maintenance Spending Plan
- Section V – Capital Spending Request Form
- Section VI – Capital Project Questionnaire
- Section VII – Submission Deadlines

I. DEFINITIONS

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

A. Preventive Maintenance (PM)

PM includes 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. Examples of PM include calendar-based maintenance of your HVAC system and exterior repainting to prevent deterioration.

B. Repair & Rehabilitation (R&R)

R&R is defined as a broad range of expenditures (generally grouped together as a project) to maintain or increase asset utility, improvement of existing assets, or to address deferred maintenance. This includes projects such as the replacement of a roof or HVAC system on an existing building.

R&R also includes the subcategory of Deferred Maintenance (DM). DM arises due to a multitude of factors such as lack of funding, repurposing funds for emergency repairs, or the practical choice of fixing other critical assets.

IDOA and SBA are currently working on a statewide asset inventory and facilities assessment to address statewide DM. Agencies should collaborate with IDOA to facilitate the completion of their deferred maintenance inventory.

C. Line-Item Projects

Line-item projects are defined as a broad range of expenditures (grouped together as a project) resulting in the creation of a new or different 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 results in an additional new structure or replaces an existing building) would be considered a line-item construction project.

Line-item projects may also reflect a change in an asset's function, use, or mission. For instance, expenditures necessary to transform a cold storage facility into a vehicle repair facility would be considered a line-item project because it would result in a major functional change for an existing structure. These are also intended to be one-time in nature rather than representing a recurring need.

D. Capital Lease Rentals

This category represents 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.

E. Other Capital Requests

This category includes expenditures that do not fall within the foregoing definitions and for which inclusion into the capital budget is in the best interest of the State. These requests may be submitted to the State Budget Agency 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 should be made in the operating budget submission.

II. CAPITAL MASTER PLAN

SBA is dedicated to ensuring that Capital Master Plans are maintained and used for long-term capital planning. These plans should be adjusted and updated at least biennially to account for changes in project timelines, agency needs, project costs, funding, agency mission, and objectives.

If assistance is required with the Capital Master Plan, please contact SBA and/or IDOA's Division of Public Works. Agencies with bonded facilities should continue to work with the Indiana Finance Authority and the Division of Public Works to ensure adherence to the facility master plan.

The following is a list of some of the factors to be considered when developing a complete Capital Master Plan:

- Facility condition and age assessments
- Health, safety, and environmental concerns
- Building code compliance
- Future operating costs (e.g. utilities)
- Efficiency opportunities
- Financing structure
- Matching support from federal, local, or private sources
- Agency program needs and forecasted changes (e.g. population trends)
- Long-term plans for disposition

As part of your Capital Master Plan, agencies should detail the condition of current assets and project the end of each asset's useful life. Use this data to assist with current and future project requests. Agencies must address the age, remaining useful life, and replacement costs for replaceable assets such as roofs, boilers, HVAC systems, water systems, electrical, plumbing, pumps, generators, pavement, building facades, windows, etc.

Next, agencies should document their short-term capital needs by evaluating quantitative, detailed capital projects necessary for the next 2-4 years. Projects should be accompanied by cost estimates, timelines, and feasibility review.

Agencies should document their long-term capital needs for the next 10 years. This review should focus on proactive capital planning, including identifying expiring assets and building a plan for addressing them before the end of useful life to avoid more expensive emergency R&R projects.

SBA acknowledges a one-size-fits-all approach may not work. Therefore, if your agency is already maintaining a Capital Master Plan format that addresses all of these points, continue to do so in the format that best fits your agency.

III. CAPITAL TRANSMITTAL LETTER

Your capital transmittal letter should provide a narrative overview or summary of the condition of your assets and the priorities identified for improvement in the upcoming biennium. Generally, it should include the following:

- Condition of the agency's physical assets and a discussion of progress made in the current biennium and challenges facing the agency's facilities/infrastructure in the next biennium
- Explanations of how the agency assets fit into current and long-term plans
- A prioritized list of capital projects for the upcoming biennium and what criteria the agency used to determine priority

IV. PREVENTIVE MAINTENANCE SPENDING PLANS

Unless otherwise requested, agencies will not be entering PM requests into Hyperion. Your SBA Capital Analyst will enter PM budgets based on submitted spend plans or FY 2025 appropriation amounts if no changes were requested. For agencies with multiple PM appropriations, list the PM request for each facility or division in your spend plan.

With sufficient justification, agencies are encouraged to adjust their PM budget requests as necessary to ensure that assets are maintained. Consider annual HVAC maintenance contracts and supply costs. It may also make sense to adjust your PM budget request depending on the timing of bringing a new building on or offline.

As a reminder, properly executed PM should minimize the need for more expensive R&R projects and extend the useful life of the asset.

To complete the Preventive Maintenance Spending Plan, agencies shall submit a document that describes how they plan to spend their PM appropriation to the SBA Capital Analyst and Division Director. For example, this can be a spreadsheet listing the regular maintenance responsibilities and estimated costs for those maintenance activities and contracts.

V. CAPITAL SPENDING REQUEST FORM

The narratives in the Capital Spending Request Form(s) will be used to categorize and justify requests.

The Problem/Need Statement Justification will be entered in the "Project Description" field on the Capital Spending Request Form. Briefly explain the need for the proposed project. Identify whether it relates to a current or a proposed 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, preferably 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) calculation, lifecycle costing, or other types of analytical methods as appropriate.

As necessary, include other information in the “Project Description” field, such as:

- **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 the projects. Use the IDOA Public Works Division 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 Justification described above.

VI. CAPITAL PROJECT QUESTIONNAIRE

SBA will continue to utilize an online survey to collect and review capital project submissions. The link to the survey can be found at: <https://fnow.sba.in.gov/BudgetAgencyForms/Home>. This year’s submissions will be evaluated in a qualitative manner by the SBA Capital Team in conjunction with your SBA Budget Analyst or the Budget Division Director. Submissions in the Capital Project Questionnaire will automatically be uploaded into Hyperion to ensure project names, prioritization numbers, dollar values, and descriptions match for easy comparison. Agency staff responsible for capital submissions will receive a Hyperion report to confirm the data transferred correctly.

VII. CAPITAL BUDGET SUBMISSION DEADLINES

Deadline Date	Task	Format/Method
Friday, May 17	If agency does not maintain a capital master plan, collaborate with IDOA/DPW for assistance in developing a plan	Email Bob Grossman (rgrossman@idoa.in.gov) and Carl Brown (cabrown@idoa.in.gov)
Friday, July 12	Capital Master Plan submission to IDOA/DPW and SBA	E-mail IDOA contacts above as well as Evan Kalember (ekalember2@sba.in.gov)
Friday, August 9	Submit online capital project questionnaire (attach capital spending requests)	Questionnaire link
Friday, August 16	Capital Transmittal Letter and PM Spending Plan	Word/Excel documents emailed to Evan Kalember (ekalember2@sba.in.gov)