

# **Indiana State Budget Agency**



## **Budget Submission**

### **Capital Budget Development**

**For the FY 2008 & FY 2009 Budget**

**Capital Budget Instructions for the FY 2008 & FY 2009 Budget**

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## INDIANA STATE BUDGET AGENCY

### Capital Budget Development

These instructions set forth the process to request and justify preventive maintenance, repair and rehabilitation, construction, capital lease rental and other capital projects for FY 2008 and FY 2009.

This capital budget process has been designed to promote a safe, clean and productive environment for employees and users of state operated facilities, to protect the state's capital investments and reinforce efforts to improve the effectiveness and efficiency of state government. As the Budget Agency reviews requests, it will be looking for the relationship between your proposed capital budget, statewide objectives, and your agency's program objectives, as defined in your operating budget requests. Statewide capital objectives are summarized below in the discussion on prioritization. We will also review the impact your requests will have on future operating costs. In summary, proposed projects should contribute to statewide objectives while improving your agency's productivity by meeting your customers' needs at the lowest practical cost.

An agency should work with its budget analyst to determine which of its outstanding projects are likely to be approved during the remainder of the 2006-2007 biennium. All other projects should be re-prioritized with other projects submitted for the 2008-2009 biennium. Your Budget Agency analyst will work closely with your agency throughout the capital budget process.

#### **The Capital Budget Process**

Each state agency will identify its capital needs and submit project requests both to maintain its existing facilities and to support new programs.

The capital planning process begins with each user agency submitting its prioritized requests to its assigned State Budget Agency (SBA) analyst. The SBA forwards the request to the Indiana Department of Administration (IDOA) Public Works Division, which performs a technical evaluation of all the requests by assigning a technical team of state architects and engineers to review each project. These teams verify the project scope and cost estimates. Once the technical team has completed its review, IDOA Public Works develops a statewide list that categorizes all the requested projects based on the following category codes:

1. Life/Safety factors (i.e., fire alarms, removal of hazardous materials, fixing dangerous conditions);

2. Code compliance (i.e., including Americans with Disabilities Act and other structural codes);
3. Infrastructure maintenance (i.e., repairing roofs before water damage occurs to structures);
4. Completion of ongoing projects (i.e., supplying the final stages of construction or equipping built space);
5. Cost compared to benefits achieved; and
6. New construction (new or substantially remodeled space to meet new programmatic needs).

The SBA then evaluates the Public Works list and category codes. In general, SBA gives preference to maintenance or renovation of existing facilities over new construction. The SBA also factors in broader considerations, using different criteria for different types of projects, including:

1. Deferred maintenance impacts (when spending a smaller amount of money will prevent the need for more expensive repairs in the future);
2. Facility condition assessment (impact on the state's long term capital condition and financing structure);
3. Agency program needs (i.e., caseload or enrollment trends);
4. Future operating costs (i.e., utilities, staffing);
5. Matching support from federal, local, or private sources;
6. Statewide space needs considerations (for instance considering whether an agency could co-locate with another, rather than building new space);
7. Long term plans for demolition, sale or disposition of assets (avoidance of investments in structures that will not be needed in a few years);
8. Agency efficiency (for instance, will a given capital investment allow a more efficient staffing pattern);
9. Strategic priorities (does the investment support state government core missions such as economic development and job creation, education, public safety, and health);
10. Customer service focus (preference is given to investments that benefit Indiana residents or the clients of agencies directly);
11. Environmental concerns (will the investment have detrimental or beneficial environmental impacts); and
12. Debt service impacts of spending (given that spending, and therefore bond issuance is spread over several years).

## I. INTRODUCTION

These instructions apply to all state agencies, institutions and other entities, except state universities, planning to make capital budget requests for FY 2008 and FY 2009. Capital budget requests should continue to be submitted by agency, by division or by agency by institution/site.

The procedures and data entry screens used to enter capital budget requests have not changed appreciably since last biennium. You should note the following:

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*.
2. Agencies are required to have a master plan for each major facility or campus. If the master plan you currently have is older than six years, a request must be submitted to Public Works (with a copy to your SBA budget analyst) to update the plan. If you do not have a master plan, you should submit a request to Public Works (with a copy to your SBA budget analyst) to develop a plan. Public Works will assist agencies in completing master plans. The status of your agency's master plan should be addressed in your capital transmittal letter.
3. All project requests must be prioritized. Generally, projects should be prioritized according to statewide objectives established by the Budget Agency. An agency may deviate from the statewide criteria if it includes a specific description of the alternative criteria used to prioritize capital projects. The criteria used to prioritize projects should be generally addressed 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 SBA 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 preventive maintenance.
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 correctional facility for use by the Department of Correction. Under the indenture securing the bonds, the 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 Budget Agency with appropriate supporting information.

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 State Budget Agency. Due to restraints within the BudSTARS budgeting program, the agency overview may be electronically submitted to your budget analyst separate of BudSTARS. The letter should include the following:

- a general statement of the condition of the agency's physical plants. Include a brief discussion of progress made in the current biennium and special challenges facing your agency for the next biennium;
- a master plan status for major facilities;
- a discussion of the criteria you used to prioritize requested projects. In addition to the capital transmittal letter, the State Budget Agency requests that each agency supply an inventory of each facility's buildings including the construction date, original construction cost, the dates and costs of any major renovations, square footage, and the general condition of each building. This inventory can be supplied separate of the BudSTARS system and in any format

that is readily available to the agency. Please discuss the transmission of this information with your Budget Agency analyst.

#### **IV. PREVENTIVE MAINTENANCE 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 fund centers, list all PM requests for the agency with the appropriate division or institution. For example, the Department of Correction should submit a Preventive Maintenance request for each correctional institution.

**Generally, your PM budgets for FY 2008 and FY 2009 cannot exceed your PM appropriation for the current 2006-2007 biennium.**

Your PM request may exceed your 2006-2007 PM appropriation if a new facility that did not receive a PM appropriation in the current 2006-2007 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 FY2008 or FY2009 may be incorporated into the PM Current Services budget request, but the increased amount should be discussed and justified in the narrative.

Although PM requests do not need to be submitted by minor object detail, PM expenditures will still only be permitted for approved PM minor objects. (See Appendix I for a list of the approved PM minor objects.)

#### **V. CAPITAL PROJECT REQUEST**

Requests for individual projects (capital lease rentals, R & R, and 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*.

##### **Prioritization Criteria**

The Budget Agency has established statewide objectives as follows to assist agencies in setting priorities for requested projects. 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, Agency expenses, Trustee Fees, Fiduciary Fees, Subtotal, and Total. **Agencies must consult with IFA in order to acquire this information.**

You may prioritize remaining requested projects as you believe best meets your agency's needs. However, the SBA will give the following types of projects the greatest level of support when reviewing agency priorities.

2. **Master Plan:** Contact Public Works Division to discuss the status of your master plan. PW will **assist** in establishing a scope of work and an estimated fee to update an existing master plan or create a new plan. The estimated cost can then be submitted as a capital request.
3. **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 and water and other projects designed to modernize campus utilities and **promote** a clean environment. However, an agency should first check with the State Revolving Fund (SRF) office to determine SRF eligibility before including any sewer and water projects. These projects will be given a high priority in the budget process.
4. **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.
5. **New Facilities:** The SBA will consider requests for construction of new facilities; however, such **requests** will generally receive less support than lease rentals and other requests designed to promote health and safety and maintain existing facilities.

### **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 expand services. Explain how you assigned the priority ranking. Also include a present value analysis, cost/benefit comparisons, life cycle costing, or other types of analytical methods as appropriate.

*Operating Costs* - 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. Since capital lease rentals represent contractual obligations, you need not provide an alternative for these requests.

### **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. Use the six digit 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 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 or 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.

- Land Acquisition
- Site Investigation
- Construction Costs
- Site Development
- Utilities
- Furnishings – Equipment
- Contingency
- Design Fees (10% of estimated construction costs)
- Hazardous Materials Abatement
- Capital Lease
- Other

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

## **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 fund to pay for capital projects, the dedicated fund should be marked as the funding source. If unsure, choose the general fund.

## **VIII. FUND BALANCE STATEMENTS**

For all projects with dedicated funding, you must ensure that the fund balance report in BudSTARS is accurate and balances to the State Auditor's records. Projects funded partially with the state 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 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 fund balance statement for your agency, please contact your budget analyst.

**Note** Fund Balance Statements reflect the revenue and expenditures of all centers within the fund. This may include fund/centers 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 29<sup>th</sup>.**

**Appendix I**

**Preventive Maintenance Minor Objects**

Preventive Maintenance funds may be used for the following minor objects. Funding for other minor objects should be requested in your operating budget unless Budget Agency approval is granted:

- 531500 Snow & Ice Removal Agreements
- 531600 Tree Trimming Agreements
- 533100 Repairs to Building & Structures
- 533300 Shop Equipment Repairs
- 534600 Maintenance - Repairs, Inspections NOC
- 534700 Pest Control
- 537000 Service Agreements
- 538800 Security Alarms, Devices, Costs
- 540800 Refrigeration Supplies
- 541200 Agricultural & Botanical Supplies
- 541400 Power Plant Supplies (except fuel)
- 542100 Lumber, Building Supplies, Keys/Locks
- 542200 Plumbing & Drainage Materials
- 542300 Electrical Supplies
- 542400 Paint & Painting Supplies
- 542500 Aggregate - Highway Materials
- 543000 Iron & Steel
- 543200 Repair Parts & Supplies
- 543300 Small Tools & Implements
- 543400 Shop Machine Parts
- 543600 Alcohol & Antifreeze
- 543700 Weed & Bush Chemicals
- 543800 Nursery Products
- 543900 Sod
- 544200 Fencing & Posts
- 544300 Asphalt & Tars
- 544400 Bituminous Mixtures
- 544500 Cement & Ready Mix Concrete
- 544600 Signs & Posts
- 545000 Salt & Sodium Chloride
- 545200 Sand & Cinders
- 546000 Hospital - Acetylene & Oxygen - Plant