

INDIANA STATE BUDGET AGENCY

Capital Budget Development Process for FY 2010 and FY 2011

The Office of Management and Budget (“OMB”), through a collaborative initiative with the State Budget Agency (“SBA”), the Government Efficiency and Financial Planning division (“GEFP”), the Indiana Department of Administration (“IDOA”), and the Indiana Finance Authority (“IFA”) has modified the capital budgeting process for the State of Indiana. All of these groups are collectively referred to as the OMB Team (“OMB Team”).

The goal is to provide a more comprehensive analysis of the capital budget needs of state agencies while providing greater transparency for taxpayers and legislators. This collaborative effort is now being extended to each agency in order to make the State’s capital budgeting process more efficient and effective for the FY 2010 and FY 2011 biennium and future budget cycles. It is important to provide complete and precise information during this budget cycle so that the state’s comprehensive plan has an accurate baseline.

These instructions will require more information than previously requested so that a full picture of the historical as well as future needs can be analyzed. Successful capital planning and budgeting requires long-term planning, looking well beyond the current biennium 1) to determine the investments that need to be made to maintain, and possibly extend, the useful life of the asset and, 2) 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. With proper long-term planning and timely preventive maintenance, 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 to the state and agency’s 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 preventive maintenance, repair and rehabilitation, construction, capital lease rental and other capital projects for FY 2010 and FY 2011. These instructions apply to all state agencies, institutions and other entities, except state universities, planning to make capital budget requests for FY 2010 and FY 2011. Capital budget requests should continue to be submitted by agency, by division or by institution/site.

As mentioned above, the procedures used to submit capital budget requests have changed noticeably since last biennium. You should note the following 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/budget1011/Budstars_User_Manual_V6.pdf

2. 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 Public Works, including a checklist of preventive maintenance 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 preventive maintenance 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.).

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 Public Works (with a copy to your Budget Analyst) to develop a plan. Certain facilities will be selected to have professional, third-party contractors assist in the creation of their master plans.¹ 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 preventive maintenance, over that time period. Although capital budget development is a biennial process, the SBA and 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.

¹ Expenses to be paid by the IFA.

3. 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 VI). 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 their FY 2008 and FY 2009 budget that have not yet been initiated, as agency priorities or circumstances may have changed since the last budget development process. For instance, the Department of Correction may have received an appropriation to build a new prison, 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 already appropriated or simply being requested, 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 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 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 should 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 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 FY 2008 and/or FY 2009; and
- a discussion of the criteria used to prioritize requested projects.

IV. ADDITIONAL INFORMATION

In addition to the capital transmittal letter, the SBA requests that each agency supply the following information separate from the BudSTARS system, using the Excel template provided.

- 1) **Building Inventory:** an inventory of each facility's buildings including the building use, general condition, total area (square footage), mission dependency, construction start and completion date, method of financing, and original construction cost (if built within the last five biennia). The inventory should include IFA bond-financed facilities.

Note: In the future, agencies will be asked to provide information on all assets, such as steam lines, towers, etc.

- 2) **Capital Projects:** a comprehensive list of capital projects included in the last five (5) biennium budgets (FY 2000 - FY 2009). The list should include the following information for each project:

- type of project (e.g., capital lease rental, repair and rehabilitation, etc.),
- status update (e.g., not started, design, construction, in use, cancelled, etc.),
- project priority (if not yet started),
- duration of project (in months),
- initial biennium of appropriation,
- budget appropriation,
- actual completion cost,
- total estimated cost (if not yet completed), and
- remaining unobligated funds.

If the project type is a capital lease rental, then the following information should also be provided:

- lease time remaining (in months), and
- sum of remaining lease payments.

The additional information requested above should be submitted electronically using the Excel template provided by the SBA. The template should be submitted by August 29th. Please contact your Budget Analyst if you have any questions about completing this template.

Note: The SBA will be compiling a list of the preventive maintenance (PM) appropriations and expenditures by agency/facility for the last five (5) biennium budgets (FY 2000 – FY 2009). This information will be shared with your agency during the budget development process. In the future, agencies will be expected to track this information by building, not only by agency or facility.

V. 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 2010 and FY 2011 should not exceed your PM appropriation for the current FY 2008 and FY 2009 biennium.

Your PM request may exceed your FY 2008 and FY 2009 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 2010 or FY 2011 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.

Note: The master plan should include a preventive maintenance plan to ensure that the asset is maintained according to schedule (e.g., outlines procedures and responsibilities for scheduled preventive and regular corrective maintenance). 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 preventive maintenance 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. Preventive maintenance (PM), if properly executed, should minimize the need for more expensive repairs and capital projects in the future. Those facilities selected to have professional, third-party contractors assist in the creation of their master plans, including detailed PM plans, may receive PM appropriations that differ from those described above.

VI. CAPITAL PROJECT REQUEST

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.

Prioritization Criteria

The SBA 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, 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. The SBA will consider the following to be order of priority for statewide objectives when balancing with agency priorities.

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

