



STATE OF INDIANA

Eric J. Holcomb
Governor

STATE BUDGET AGENCY
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Zachary Q. Jackson
Director

Capital Budget Instructions for FY 2024 and FY 2025

April 22, 2022

Dear Colleagues,

As I mentioned in the Operating Budget Instructions that were sent out on March 31, 2022, the Indiana General Assembly will reconvene in January 2023 with the goal of passing a biennial budget for Fiscal Years 2024 and 2025. It is now time for us to prepare the Governor's recommended budget for the next biennium. The following pages outline our vision for capital budgeting as well as instructions for submitting your capital budget request.

Successful capital budgeting requires long-term planning, looking well beyond the current biennium to determine the investments that need to be made to maintain, and 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 again being placed on addressing deferred maintenance (DM) and on the execution of preventive maintenance (PM). With proper long-term planning, resolving DM, and timely PM, additional large and/or unexpected capital investments should be minimized. Furthermore, agencies are always expected to prioritize the reduction of deferred maintenance projects before initiating line-item construction projects and capital expansion.

The goal of our capital budgeting program is to provide safe, clean, and efficient facilities for the citizens we serve, as well as state employees. The accomplishment of this goal will be 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 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 affect future capital needs.
3. Completion of a capital forecast that analyzes the lifecycle and replacement costs of certain assets. This includes assets that require periodic replacements.
4. Detailed calculation of the impact that the capital requests will have on future operating costs and ongoing maintenance cost needs 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.

As explained in the following pages, an agency’s capital budget request must include each of the following items:

1. A Capital Master Plan & Forecast per facility or campus,
2. A Capital Transmittal/Overview Letter,
3. A Preventive Maintenance Spending Plan,
4. A Capital Spending Request Form for each project and,
5. An Online Capital Project Questionnaire for each project.

Key deadlines associated with capital budgeting are:

Deadline	Task	Format/Method
Friday, April 29, 2022	Request to collaborate with the IDOA DPW to develop a Capital Master Plan & Forecast (if without a plan and forecast)	Email Bob Grossman (rgrossman@idoa.in.gov) and Carl Brown (cabrown@idoa.in.gov)
Monday, July 11, 2022	Capital Master Plans & Forecasts submitted to Division of Public Works and your SBA Budget Analyst	Excel documents or optional template available here
Monday, August 22, 2022	FY 2024 and FY 2025 PM Spending Plan and Capital Transmittal/Overview Letter due to your SBA Budget Analyst	Word and/or Excel documents
Monday, August 22, 2022	Submit online Capital Project Questionnaire(s) (attach Capital Spending Requests)	Capital Project Questionnaire link
Monday, August 22, 2022	Electronic submission of FY 2024 and FY 2025 agency budget due in Hyperion	Hyperion

My staff and I are available to assist and answer any questions that you may have about these instructions and the capital budget development process.

Sincerely,



Zachary Q. Jackson
State Budget Director

Cc: Governor Eric J. Holcomb

I. CAPITAL BUDGET SUBMITTAL

These instructions set the process to request and justify PM, repair and rehabilitation, line-item projects, capital lease rental, and other capital projects for FY 2024 and FY 2025. These instructions apply to all state agencies, institutions, and other entities, except state universities, planning to make capital budget requests for FY 2024 and FY 2025. Capital budget requests should continue to be submitted by agency, by division, or by facility.

II. DEFINITIONS:

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

A. Preventive Maintenance (PM)

This category 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 in order to prevent deterioration.

B. Repair & Rehabilitation (R&R)

This category 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 in order to address statewide DM. Agencies should collaborate with IDOA to facilitate the completion of their deferred maintenance inventory.

C. Line-Item Projects

This category is 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 resulted in an additional new structure or replaced some 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.

Typically, line-item projects are intended to be one-time in nature.

D. 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.

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 must be made in the operating budget submission.

III. REQUIRED CAPITAL SUBMISSIONS:

A. Capital Master Plan & Forecast for Each Facility or Campus

Agencies are required to submit a Capital Master Plan & Forecast alongside their budget request by July 11, 2022. The State Budget Agency is dedicated to ensuring that Capital Master Plans & Forecasts are maintained and used as a planning tool for the State's continued quantitative approach to 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 & Forecast or any questions arise, please contact the State Budget Agency and/or IDOA's Division of Public Works. For bonded facilities, agencies should continue to work with the Indiana Finance Authority and the Division of Public Works to ensure that the facility master plan is being adhered to.

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

- Facility condition assessment, including age and condition,
- Deferred maintenance impacts (could initiating a smaller project today prevent the need for more expensive and extensive repairs in the future),

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- Health and safety concerns (previously referred to as life/safety factor),
 - Code compliance (including Americans with Disabilities Act and other structural codes),
 - Environmental concerns,
 - Future operating costs (e.g., utilities),
 - Agency efficiency (for instance, will a given capital investment allow a more efficient staffing pattern),
 - Financing structure (if applicable, debt service impacts on spending),
 - Matching support from federal, local, or private sources,
 - Agency program needs (e.g., caseload or enrollment trends),
 - Customer service focus (preference is given to investments that benefit Indiana residents or the clients of agencies directly),
 - Statewide space needs considerations (for instance, considering whether an agency could co-locate with another state agency, rather than building new space),
 - Strategic priorities (does the investment support state government core missions such as economic development and job creation, education, public safety, and health), and
 - Long-term plans for demolition, sale, or disposition of assets (avoidance of investments in structures that will not be needed in a few years).

As part of your Capital Master Plan & Forecast, agencies should detail the current 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 for the next 2-4 years. Projects should be accompanied by cost estimates, timelines, cost-benefit analysis/return-on-investment, and feasibility. Items listed here should be at the top of the prioritization for your agency and be ready to begin in the year funding is available.

In addition, agencies should document their long-term capital needs by evaluating qualitative, long-term planning for the next 20 years. This section should still contain quantitative details but should be focused on proactive capital planning. This section should identify expiring assets and set a plan for addressing them before the asset deteriorates to the point of malfunction.

The State Budget Agency acknowledges a one-size-fits all approach may not always work. Therefore, if your agency already is maintaining and submitting a Capital Master Plan & Forecast, continue to do so in the format that best fits your agency. A Capital Master Plan & Forecast template is available

[here](#) if your agency does not already have one.

B. Capital Transmittal/Overview Letter

Your capital transmittal letter should include the following:

- A general statement of the condition of the agency's physical plants/assets – include a discussion of progress made in the current biennium and special challenges facing the agency for the next biennium,
- A description of how each of the agency's facilities fits into the agency's current and long-term plans,
- If current Capital Master Plans & Forecasts are not available for all facilities, an explanation as to the status,
- A prioritized list of projects, and
- A discussion of the criteria used to prioritize requested projects.

C. Preventive Maintenance Spending Plan

Within Hyperion, Preventive Maintenance requests are entered as PM-type change packages. 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 facility. For example, the Department of Correction should submit a PM request for each correctional facility.

With sufficient justification, agencies are encouraged to adjust their PM budget requests as necessary to ensure that assets are maintained. Consider increasing your PM budget request to address for increases in PM contracts (e.g., annual HVAC maintenance) and supply costs. It may also make sense to adjust your PM budget request if your facility has constructed new buildings or demolished old buildings.

Agencies may wish to work with IDOA and SBA for help in determining how much funding to allocate towards PM service contracts in comparison to maintenance that employees are able to complete internally. For agencies without existing PM contracts, IDOA and SBA can estimate PM budgets based on similar expenditures at other agencies.

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 criteria, agencies are to submit a document that describes how they plan to spend their PM appropriation. For example, this can be a letter stating how the agency will contract out the work or a spreadsheet listing the regular maintenance responsibilities. The PM Spending Plan requires the following information:

- Project name,
- Project description,
- Project category (i.e., contract, scheduled project, other building maintenance),
- Fiscal year of expenditure,
- Name of contractor (if available),
- Estimated duration of project, and
- Actual/estimated costs.

D. Capital Spending Request Form for Each R&R or Line-Item Project

The narratives in the Capital Spending Request Form(s) will be used to define and justify requests and explain how the projects were prioritized.

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.

E. Capital Project Questionnaire for Each R&R or Line-Item Project

SBA will be using a capital project scoring tool to assist planning the state’s capital priorities for the upcoming biennium. This information is collected via an online questionnaire. Each agency submitting a capital budget shall complete the online questionnaire, making sure to include all justifications and attachments in the scoring tool. Contact your SBA Budget Analyst to register for the online questionnaire.

Please attach the Capital Spending Request Form to the online questionnaire. Failure to complete may cause requests to be placed lower on the prioritization list. Once registered, the link for the online questionnaire is available [here](#).

IV. ADDITIONAL HYPERION DIRECTIONS:

A. Cost Estimates

On the Construction Projects Form (Form 4.1), enter a cost estimate for your project request by selecting and using the following applicable categories on the form:

- Site Investigation,
- Land Acquisition,
- Site Development,
- Hazardous Materials Abatement,
- Design Fees (usually estimated at 10% of estimated construction costs),
- Construction Costs,
- Contingency,
- Furnishings & Equipment,
- Utilities,
- Capital Lease Payments, or
- Other.

B. Funding

Funding source information is entered at the bottom of the Construction Projects Form (Form 4.1) – below the total of the cost categories. This identifies the legal fund and PeopleSoft fund that will support the appropriation request. In Hyperion, total funding must match total spending for each fiscal year.

Projects funded with dedicated funds must demonstrate that they are absorbable within the available resources of the dedicated legal fund. Please contact your SBA Budget Analyst if you have questions regarding legal fund balances.

C. Prioritization of Capital Projects

Your agency will use the Construction Project Information Form (Form 4.2) to prioritize previously planned projects alongside new projects, as an agency's priorities or circumstances may have changed since the last budget has passed. 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.

In Hyperion (Form 4.2), the prioritized list of projects must include the following information:

- Capital project name,
- Project priority, and
- Type of project.

V. **BUDGET SUBMISSION DEADLINE**

The capital and operating sections will be submitted as one budget. Please submit in Hyperion by the deadline of **Monday, August 22, 2022**.