

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:

- 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. However, 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 can 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 lease rentals and other 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.²

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

² When such emergencies or other unforeseeable events happen, agencies are expected to re-prioritize projects that have received appropriations so that life/safety issues are addressed within an agency or facility's existing appropriations.

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. 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.

Agencies should analyze the potential use of offender labor to complete capital projects where appropriate.

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 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 and allocated for the requested project.

VII. 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.

Note: For projects that do not require design or engineering work (e.g., purchase of buses), the Public Works Division shall actually bid projects greater than \$100,000 to ensure accurate appropriations are made for approved projects. These bids will take place during the fall of 2008 with the understanding that the projects may have to be formally bid again at a later date.

For projects that require design and/or engineering work, Public Works shall conduct a detailed review and cost estimate. When those projects are formally bid after the FY 2010 and FY 2011 budget is adopted, the SBA and Public Works will only allot funds sufficient to cover the cost of the project. Additional funds will be placed in reserve, and earmarked for reversion at the end of the following biennium.

VIII. 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.

IX. 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. Please note that this calculation has changed recently. In particular, only reverting (control-3) fund/centers are included in the fund balance calculation. 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.

In addition, each agency shall conduct an analysis of all fund balances from previous capital budgets, including those from dedicated funds. The list should clearly identify which funds are obligated to actual, approved projects vs. unobligated funds from projects that were cancelled or completed under budget. Your Budget Analyst will work with you to identify these funds, and to assist in closing fund centers for completed projects.

Unspent funds for all completed or cancelled projects must be reverted to the source fund, including the General Fund, prior to submission of an agency's capital budget request.

X. 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 12th.**

Key Tasks and Deadlines:

On-going	Develop or update master plan working directly with Public Works
August 29th	Submit Additional Information (Section IV) to your Budget Analyst
Prior to September 12th	Identify funds from completed or cancelled projects to be reverted
September 12th	Submit Capital Transmittal / Overview Letter (Section III) to your Budget Analyst
September 12th	Submit FY 2010 and FY 2011 Agency Budget in BudSTARS

XI. RELATED PROCESSES

Verification

After the capital budgeting request is submitted in BudSTARS and to the Budget Analyst, the analyst forwards the request to Public Works, which performs a technical evaluation of the request by assigning a technical team of state architects and engineers to review each project. These teams verify the project scope, cost estimates, and its statewide objective priority under the prioritization criteria listed above. If variances are determined, the Budget Analyst will contact the agency to work out the discrepancy.

Master Planning

Members of the OMB Team, with the assistance of outside consultants, will be working together to assist the agencies in developing accurate, updated long term master plans. In addition to the items mentioned earlier in this document, 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 spending a smaller amount of money 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); and
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).

Site Visits

Beginning in July, members of the OMB Team shall conduct site visits of various state facilities to verify their condition, and to assess the accuracy and thoroughness of existing master plans. The SBA is dedicating two Governor's fellows to assist with this initiative during the summer months in addition to Budget Analysts already assigned to specific agencies.

Ongoing Process

This new process will be ongoing throughout the next few years. To improve the capital budgeting process, complete, accurate, and thorough master plans will need to be in place for each facility at the state with a corresponding funding plan. Public Works and project/maintenance personnel at the individual facilities will need to adjust their processes to accommodate a longer-term capital planning process. The OMB Team is committed to making this process successful and asks the individual agencies to make a similar commitment.

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