2019-29

CAPITAL BUDGET INSTRUCTIONS

Office of Financial Management
Budget Division

June 2018

TABLE OF CONTENTS

CHAPTER 1

CAPITAL BUDGET BASICS

Introduction

These instructions are required by statute (RCW 43.88.030) and are intended to assist agencies through the budget submittal and implementation process. The information submitted by agencies is used by the Governor, the Office of Financial Management (OFM) and the Legislature as a basis for budget decisions.

What is a capital project?

The capital budget includes appropriations for a broad range of construction, renovation, rehabilitation and acquisition projects involving state office buildings; colleges and universities; prisons and juvenile rehabilitation facilities; parks and recreation; K-12 schools, affordable housing facilities for low-income persons and people with special needs; water quality, water supply and flood risk reduction infrastructure; and other capital facilities and programs.

Capital projects appropriated in the capital budget are public works under Chapter 39.04 RCW and subject to prevailing wage requirements and other applicable laws. Costs for routine maintenance work necessary to keep a facility or asset in useful condition are not typically included in the capital budget.

Phases and types of capital projects

Predesign

A predesign is a document that explores alternatives, conveys programming information and provides a cost estimate for a proposed capital project. The predesign should assess which alternative best addresses an identified problem, opportunity or program requirement and at what cost. Decision makers in the Governor's Office, OFM and the Legislature use this information to determine whether the project should proceed to design and construction.

Predesigns are required for all capital projects with appropriations over $5 million ($10 million for higher education) and projects with smaller appropriations that are selected by the Legislature or OFM because they are particularly time sensitive, have high risk or are of particular interest to decision makers.

For more information, see OFM's Predesign Manual. Although predesign is often viewed as the first phase in a major capital construction project, OFM approval of the completed predesign does not guarantee additional appropriations for design or construction.

Design

Design documents form the basis for taking bids and constructing a facility. In the design phase, the needs, ideas and proposals of the agency are transformed into plans and specifications. Normally, the design phase consists of three basic parts, each of which includes preparation of both drawings and written specifications: schematic design, design development and construction documents.

For most construction projects, an architect/engineer (A/E) assumes overall responsibility as the owner's agent for the design, bid and construction observation functions. This includes ensuring that the project is completed within the limits of an established budget. An A/E also coordinates the activities of other design professionals working on the project.

Construction

The construction phase transforms the needs, ideas and proposals of the agency, as defined by the plans and specifications, into a physical structure. The construction phase begins with the bid and continues through final acceptance of the construction project and equipping the building for use. Upon completion and approval of the final construction documents, including the bidding requirements, the project is ready for release to contractors to obtain proposals or bids.

There are other alternative contracting methods such as general contractor/construction manager and design build. These alternative contracting methods require approval. Consult your capital budget analyst for more information.

Grant and loan programs

Grant programs and projects provide capital appropriations to state and local governments, community organizations and tribes for facilities and land.

Minor works

Agencies are required by RCW 43.88.030(5)(d) to develop a strategic plan for reducing their maintenance backlogs and completing repair projects. This plan must be included in the capital budget submittal.

One way to reduce maintenance backlogs is through minor works. Minor works projects are a consolidation of small capital projects, each valued at less than $1 million (or $2 million for higher education). They are typically requested under one parent project. Minor works projects should be completed within the biennium.

The following are **not** minor works projects:

- A phase of a larger project.
- A project that, if combined over a continuous time period, would exceed $1 million (or $2 million for higher education institutions).
- Supplemental funding for a bigger project that received a separate appropriation.
- Planning, design and studies except for technical or engineering reviews or designs that lead directly to and support a project on the same minor works list.
- Movable, temporary and traditionally funded operating equipment.
- Software not dedicated to control of a specialized system.
- Land or facility acquisition.
- Rolling stock.
- Computers.
- Funding to supplement projects with funding shortfalls unless expressly authorized.
- Moving expenses.

Reappropriations

Because many capital projects and acquisitions require more than one biennium to complete, the capital budget includes reappropriations, which are unspent amounts from original appropriations made in the previous two-year budget period that are necessary to complete a project.

Reappropriations are not automatic; agencies must demonstrate funds are needed to complete the previously approved scope of work. Reappropriations are subject to the conditions and limitations applicable to the original appropriation, unless context clearly provides otherwise. Reappropriations are limited to the unexpended balances remaining at the end of the fiscal biennium. The sum of requested reappropriation and actual expenditures may not total more than the original appropriation for each project.

Administrative and staffing costs

Capital project administration costs are for activities directly related to the completion of a capital project or program. See Chapter 4 for the appropriate use of tax-exempt bond proceeds related to agency administrative and staffing costs.

Agencies that employ full-time professional staff who directly support capital projects must identify these staff members and their anticipated full-time equivalent (FTE) and supporting expenditures on their Capital FTE Summary.

Common agency accounting practices for administration costs associated with capital projects include charging each project directly for costs incurred or assessing a project administration fee across agency capital projects and using the pooled funds to pay agency project administrative costs.

Grant and loan programs

Normally, an agency administering a grant or loan program may charge up to 3 percent of the total new appropriated project costs unless otherwise specified in statute. Please contact a capital budget analyst if the agency believes 3 percent is not adequate. Exceptions may be granted on a very limited basis with documentation justifying the need.

Agency project management and administration fees

The following guidelines will help clarify appropriate budgeting of administrative and project management expenses for the completion of capital projects:

- Major and stand-alone capital projects greater than $1 million ($2 million for higher education).
  - The project management/administration fee is based on the A/E basic service fee, minus 4 percent and multiplied by the sum total of acquisition cost, consultant services cost, maximum allowable construction cost, construction contingency and other costs as identified in the Capital Budgeting System (CBS). Access the A/E fee schedule for more information. This rate is intended to be a ceiling, not a target. Thus, agencies must evaluate their project management and administration requirements for each project when requesting these fees.
  - When the Department of Enterprise Services (DES) is responsible for project administration, the project management/administration fee is not included in the capital request. However, if the project is "alternatively financed," additional DES fees will be incurred. Agencies should consult with DES Engineering and Architectural Services when projects are not funded by appropriation. Projects funded through alternative financing

mechanisms need to include cost estimates for the additional project management/ administration in the capital request for those projects.

- Minor works appropriation with subprojects less than $1 million ($2 million for higher education).

The project management/administration fee may not exceed 4 percent of the total new appropriated project cost. CBS calculates this fee by multiplying 4 percent by the sum total of acquisition, consultant services, maximum allowable construction cost, construction contingency and other costs.

Architect and engineering fees

For the purpose of budgeting for capital projects, the fees for basic A/E services are calculated using the Guidelines for Determining Architect/Engineer Fees for Public Works Building Projects and the A/E fee schedule.

The A/E fee guidelines define the basic design services typically needed in every project and provide definitions for reimbursable expenses and extra or other services. The A/E fee schedule is intended as a ceiling for budget purposes, not a target. Agencies must evaluate their specific project requirements when requesting these fees. After projects have been appropriated, agencies are expected to negotiate with A/E consultants to purchase design services based on consultant proposals, rather than simply using the budgeted amount to establish the fees.

CHAPTER 2

BUDGET SUBMITTAL REQUIREMENTS

Budget request submittal requirements

Each agency must submit **five** complete paper copies of its capital budget request to OFM. Three copies are retained by OFM and the remaining two are sent to the Senate Ways and Means and House Capital Budget committees.

If agencies must resubmit their capital plans to correct an error, they must resubmit paper and Capital Budget System (CBS) data. Please submit budget requests in three ring binders, number the pages and reduce oversize materials to 8½ x 11.

Send copies to:

Office of Financial Management
Third Floor, Insurance Building
302 Sid Snyder Avenue SW
PO Box 43113
Olympia, WA 98504-3113

Timeline and dates

Agencies are required to submit their entire capital and operating budget requests — both paper copies and electronic data submittal — no later than their assigned submittal dates. Operating budgets will be submitted electronically only through the state's new Agency Budget System (ABS). (Do not expect an exemption from these dates because delays significantly affect the time available for OFM analysis.) See Appendix 1 for the list of agencies and due dates. Other timeline and dates of interest for the 2019-21 budget development cycle are available on OFM's website.

The reporting feature of CBS provides most of the documentation needed for the electronic and paper submittal. Additional information that agencies would like to submit can be included as an attachment to a project in CBS.

CBS is available on two websites. For users with access to the state government network, use this site. If you cannot access this site or you do not have access to the state government network, use this site.

Reporting requirements for higher education institutions

RCW 28B.77.070 requires two- and four-year institutions of higher education to submit capital budget outlines to OFM by August 15 of each even-numbered year, including a description of each capital project and the amount and fund source being requested. Additionally, the two-year institutions shall include the State Board of Community and Technical Colleges' prioritized ranking of the capital projects. Four-year institutions will include their priority ranking and the capital budget category within which the project was submitted to OFM in accordance with RCW 43.88D.010. (Formerly submitted to the Higher Education Coordinating Board, which no longer exists.)

Reporting and budget submittal requirements related to Puget Sound recovery

RCW 90.71.320 requires state agencies that are responsible for implementing elements of the Action Agenda to provide to the Puget Sound Partnership (PSP) their estimates of the actions and the budget resources needed for the forthcoming biennium. The statute also requires these agencies to seek the concurrence of PSP in the proposed funding levels and sources included in this proposed budget.

Per Section 311 of the 2017–19 enacted operating budget, PSP must provide the Governor with a single, prioritized list of state agency 2019–21 capital and operating budget requests related to Puget Sound by October 15, 2018.

The primary criterion used by PSP to prioritize agency budget requests is how strongly the requests align with the Action Agenda. To facilitate PSP's mandated budget request prioritization process, all agencies requesting budget changes related to Action Agenda implementation must provide additional information as described in Chapter 12 (Puget Sound recovery) of the 2019-21 Operating Budget Instructions.

Required components of the budget submittals

The following table outlines the required components of the budget submittal and how it must be organized in the notebooks submitted to OFM. For budget submittal definitions and requirements by statute, refer to Chapter 43.88 RCW.

Tab A	❑ Ten-year plan summary information ❑ Ten-year capital program summary (CBS 001) – CBS report *(Chapter 3)* ❑ DAHP review letter and exempt project list *(Chapter 3)* ❑ FTE summary – narrative and FTE details *(Chapter 3)* ❑ Backlog reduction plan *(Chapter 1)*

Tab B **All preservation projects**	❑ Capital project requests related to preservation (CBS 002) – CBS report *(Chapter 3)* ❑ Capital project cost estimate (CBS 003) – projects greater than $1 million (or $2 million for higher education institutions) (*Chapter 3)* ❑ Expected use of bond funds or certificate of participation (COP) – for bond or COP projects, if applicable, for required agencies. *(Chapter 3)*

Tab C **All programmatic projects**	❑ Capital project requests related to new or expanded programs (CBS 002) – CBS report *(Chapter 3)* ❑ Capital project cost estimate (CBS 003) – projects greater than $1 million (or $2 million for higher education institutions) (*Chapter 3)* ❑ Expected use of bond funds or certificate of participation (COP) – for bond or COP projects, if applicable, for required agencies. *(Chapter 3)*

Tab D **Grant and loan programs**	❑ Capital project requests related to grant and loan programs (CBS 002) – CBS report *(Chapter 3)* ❑ Project list for each grant and loan program that is not submitted as a subproject in CBS 002. *(Chapter 3)*

TAB E **Expected use of bonds or COP forms**	❑ Expected use of bond funds or Certificates of Participation (COPs) – for bond or COP projects, if applicable. (Chapter 3) NEW !

CHAPTER 3

BUDGET REQUEST CONTENT

Content required in your request

Information required from agencies for budget requests are required by law and OFM for budget analysis purposes. The information provided should support your budget request by explaining the problem, opportunity or program requirement being addressed; why the problem or opportunity exists; alternatives for addressing it; and the rationale for choosing the preferred alternative.

Prioritize projects. Agencies must prioritize each capital project in the 10-year capital plan by need and contribution to the goals, objectives, strategies and activities in the agency's strategic plan.

10-year view (CBS 001)

The State Budgeting, Accounting, and Reporting System Act (Chapter 43.88 RCW) mandates a long-range approach to capital budget planning. It requires state agencies to submit a plan of proposed capital spending for a 10-year period, starting with the ensuing biennium. This long-range planning is designed to identify future needs and propose capital projects to address those needs. The 10-year capital plan must support the agency's mission and the goals and objectives of its strategic plan.

The 10-year capital program summary report (CBS 001) from CBS provides a summary of the agency's projects in priority order. The 10-year planning process recognizes that major capital projects span several biennia from start to finish. In the 10-year plan, project information must include estimates for present and future operating and maintenance costs, including any debt service that must be paid from a dedicated account.

Projects (CBS 002)

Projects – detail

Project titles and numbers. Project numbers are automatically generated in CBS and serve as the unique identifier of a project. The project number is used for project monitoring and comparisons throughout the life of the project.

Once established in the budget, the project title and number for major and stand-alone projects must not be changed during the life of the project. If the agency requests a reappropriation or new appropriation for an existing project, the agency should copy the project title in CBS for subsequent biennia.

Competitive grant and loan program appropriations and minor works appropriations should use a new project number and title with a biennial identifier ("2019-21") for each biennium. This improves tracking of reappropriations.

Project class. Capital projects are identified as preservation, program, grant or loan projects.

- *Preservation.* Preservation projects maintain, preserve and extend the life of existing state facilities and assets and do not significantly change the facility to address current or anticipated program changes. Examples include renovating building systems, upgrading utility systems and making other significant repairs.

- *Program*. Program projects primarily achieve a programmatic goal, such as changing or improving an existing space to meet program requirements or creating a new facility or asset through construction, lease or purchase. This category includes projects ranging from building new facilities to significant renovation of existing facilities. Programmatic projects may also improve conditions, accommodate changes in services or clientele, or increase or maintain federal reimbursement.
- *Grant and loan programs*. Some grants and loans are authorized directly in the capital budget bill to be passed through to state, tribal and local or community organizations for various purposes, while other grants and loans are authorized through competitively awarded statutory programs. Statutory grant programs must submit 10-year capital budget requests within the limits specified by statute. Agencies whose grant programs have no specified appropriation limits should submit requests based on a demonstrated need and reasonableness for the pending biennium and on a historical biennial appropriation history for the remaining four biennia.

Starting year. Identifies the year an agency intends to start the proposed project or expenditures for specific purposes.

Agency summary. This is also known as the project summary or recommendation summary (RecSum) text. Provide a brief, clear and concise description of the project, including the problem or opportunity and how the proposed project addresses it. The agency summary should be no more than two or three sentences.

Project description. Describe the proposed project. Provide answers to the following questions, which will inform decision makers about the proposed project.

1. Identify the problem or opportunity addressed. Why is the request a priority? This narrative should identify unserved/underserved people or communities, operating budget savings, public safety improvements or other backup necessary to understand the need for the request. For preservation projects, it is helpful to include information about the current condition of the facility or system.
2. What will the request produce or construct (i.e., predesign or design of a building, construction of additional space, etc.)? When will the project start and be completed? Identify whether the project can be phased, and if so, which phase is included in the request. Be prepared to provide detailed cost backup.
3. How would the request address the problem or opportunity identified in question 1? What would be the result of not taking action?
4. What alternatives were explored? Why was the recommended alternative chosen? Be prepared to provide detailed cost backup. If this project has an associated predesign, please summarize the alternatives the predesign considered.
5. Which clientele would be impacted by the budget request? Where and how many units would be added, people or communities served, etc.
6. Will other funding be used to complete the project? How much, what fund source, and could the request result in matching federal, state, local or private funds?
7. Describe how this project supports the agency's strategic master plan or would improve agency performance. Reference feasibility studies, master plans, space programming and other analyses as appropriate.

8. For IT-related costs:
   - Does this project fund the development or acquisition of a new or enhanced software or hardware system or service?
   - Does this decision package (DP) fund the acquisition or enhancements of any agency data centers? (See OCIO Policy 184 for definition.)
   - Does this DP fund the continuation of a project that is, or will be, under OCIO oversight? (See OCIO Policy 121.)

   If the answer to any of these questions is yes, continue to the IT Addendum and follow the directions to meet the requirements for OCIO review.
9. If the project is linked to the Puget Sound Action Agenda, describe the impacts on the Action Agenda, including expenditure and FTE detail. See Chapter 12 (Puget Sound Recovery) in the 2019-21 Operating Budget Instructions.
10. Does this project contribute to statewide goals to reduce carbon pollution and/or improve energy efficiency? If yes, please elaborate.
11. Is there additional information you would like decision makers to know when evaluating this request?

Projects – additional information

Prior to capital budget submittal, agencies should make early contact with affected local governments and review their project lists against local plans and ordinances to ensure consistency with local growth management plans. Agencies must submit verification that a project is consistent with the provisions set forth in the state Growth Management Act (Chapter 36.70A RCW).

Projects – subprojects

If a project includes subprojects (for example, minor works, grants or loans), complete the agency summary and project description for the parent project and each subproject. DO NOT enter "See parent project" in the agency summary and project description. Include the location information, when known for subprojects, such as county, city, legislative district, longitude and latitude.

If a project list is developed after the release of the Governor's budget, agencies are required to submit additional subproject data. Contact your capital budget analyst for instructions. Pursuant to RCW 70.235.070, when distributing capital funds through competitive programs for infrastructure and economic development projects, all agencies must consider whether the entity receiving the funds has adopted policies to reduce greenhouse gas emissions.

Projects – funding

Provide a reasonable cost estimate of the project and the fund source for the ensuing biennium and future needs. The funding request must be consistent with the CBS cost estimate (CBS 003) associated with the project or C-100. When a project has subprojects, funding information is required at a subproject level.

The 10-year capital program summary report (CBS 001) is populated by the information provided for the ensuing biennium and future biennia.

Projects – operating impacts

DPs must identify associated operational costs, including but not limited to the following:

- **Alternatively financed projects.** Agencies proposing that a project or program be funded through lease/purchase or other financing contracts must estimate the lease or debt service costs, including fund source, associated with the funding method.
- **New facility costs.** If construction or property acquisition will bring a new facility online in the 2019-21 biennium, the agency also must submit a DP in its operating budget request that reflects the operating budget impacts during that biennium. Impacts may include moving costs, other one-time costs and new ongoing costs associated with the capital project. Provide the activity number of the DP in the operating budget request in the narrative box.
- **Habitat and recreation land acquisitions.** Agencies proposing the acquisition of land, or capital improvement of land for which the primary purpose is recreation or wildlife habitat conservation, must identify the projected operation and maintenance costs for at least the two biennia succeeding the next biennium, including the source of funds from which these costs are proposed to be funded, as required by RCW 43.88.030(5)(p).

Operation and maintenance information for multiple acquisitions within one request or within a minor works list must be submitted at the subproject level.

Submit an operating budget DP if the associated operation and maintenance costs of the acquisition impact the 2019-21 operating budget. Contact your assigned operating budget analyst for details.

When requesting funding for recreation or wildlife habitat land acquisition through the Recreation and Conservation Office (RCO), submit estimates of the operation and maintenance costs to RCO. Contact Mark Jarasitis at RCO (360) 902-3006 for assistance.

Projects – cost estimates (information also included in C-100 Excel spreadsheet)

See Chapter 3.

Projects – attachments

Agencies must attach the following documentation in CBS:

- **The C-100** (Excel cost estimating form).
- **Documentation from the Department of Archaeology and Historic Preservation (DAHP) and the Governor's Office of Indian Affairs (GOIA).** In accordance with Executive Order 05-05, agencies must consult with DAHP and GOIA on all capital construction projects and land acquisitions for the purpose of a capital construction project before they are considered for funding. Agencies must attach a letter from DAHP confirming that the proposed capital project was reviewed. (Some agencies may have an exemption from this requirement from DAHP.) If the request is a grant that contains multiple subprojects, ensure that this requirement is contained in the application process or the contract. Contact Allyson Brooks at DAHP (360) 586-3066 for assistance.
- **Expected use of bond/COP proceeds.** The Office of the State Treasurer (OST) asks agencies to complete the expected use of bond/COP proceeds form for projects expected to be funded by bonds or COPs (Chapter 4). This will help determine whether IRS regulations will require taxable financing rather than tax-exempt financing. Agencies must submit this form for all projects funded with bonds or COPs, as applicable. OFM will collect and forward the forms to OST.
- **Pictures** (optional).
- Where applicable, **subproject lists** with details such as locations, rankings and descriptions.

- Where applicable, **IT project request addendum**.
- **Other documentation** that may inform decision makers.

Reappropriations (CBS 002)

For a project that requires more than one biennium to complete and for which an unexpended balance is anticipated at the end of the biennium, an agency must request that funds be carried forward (reappropriated) to the next biennium. Reappropriations are not automatic. Agencies must demonstrate that funds are needed to complete the previously approved scope of work. The reappropriation request must not exceed the remaining expenditure authority amount. Reappropriations must retain the same project title, number and description as the original appropriation.

Minor works and preservation projects are considered small and should be completed in the biennium in which they are appropriated.

OFM and the Legislature may request periodic updates of actual expenditures as they develop their budgets.

Cost estimates (CBS 003)

Agencies must conduct due diligence analyzing and submitting their project cost estimates in the standard format required for capital project budget requests to OFM.

For projects between $1 million and $5 million, agencies must provide cost estimates by completing and attaching CBS 003 or the Excel C-100. (The C-100 cost estimator in Excel aligns with the estimating tool in CBS 003.) However, for projects greater than $5 million, agencies are required by RCW 43.88.030(5)(i) to complete the C-100 form.

Agencies can submit a cost estimate for the collection of minor works projects (projects less than $1 million or $2 million for higher education institutions). Submit separate requests and estimates for minor works preservation and minor works programmatic. See Chapter 4 for allowable and non-allowable use of tax-exempt bond proceeds.

Capital FTEs (CBS 004)

Agencies must provide a summary of capital full-time equivalent (FTE) staff necessary for and related to the capital project or program. The summary includes:

- Staff and expenditures budgeted for capital projects in the 2019-21 biennium. These are all FTEs either wholly or partially funded by the capital budget. Accurate FTE information allows us to estimate the impact of the enactment of the capital budget.
- Proposed number of staff and staff-related expenditures for the 2021-23 biennium, by account and by program.
- Narrative describing the role of proposed FTEs and an explanation for any changes from the 2017-19 biennium.
- Account and level of anticipated expenditures for the FTEs.

See Chapter 4 for the appropriate use of tax-exempt bond proceeds related to staffing costs.

CHAPTER 4

FINANCING GUIDELINES

Methods of finance

Capital projects are financed with cash balances, revenues received over time or with proceeds of financings. Most financing is through general obligation bonds or through Certificates of Participation (COPs). Both general obligation bonds and COPs are issued by the state several times a year in the public securities market.

State financings are usually tax-exempt (i.e., the interest paid to investors is exempt from federal income tax), as tax-exempt borrowing rates are lower than taxable rates. Tax-exempt financings are subject to federal tax regulations regarding the types of projects being financed, the pace at which proceeds are spent and the use of the asset during the financing term.

General obligation bonds

Various purpose general obligation (VPGO) bonds are the traditional form of government debt financing for non-transportation capital projects. General obligation bonds are payable from general state revenues and backed by the state's pledge of its full faith, credit and taxing power. Unless specifically exempted, VPGO bonds are subject to a state constitutional debt limit, which requires that the maximum annual payment of principal and interest on debt subject to this limit not exceed a specified percentage of average general state revenues for the six preceding fiscal years. VPGO bond sales occur semiannually to provide funding for six months of expenditures on a variety of capital projects across the state.

Program parameters. Proceeds of tax-exempt bonds must be spent on capital expenditures, in accordance with state accounting guidelines and under federal tax laws applicable to tax-exempt obligations. Proceeds of tax-exempt bonds may be spent on grants, but loans to entities besides state or local government units – including non-profit organizations, the federal government or federal agencies – are not allowed under federal tax laws. Certain upfront costs such as design, delivery and setup, and training may qualify for financing. Expenditures for sales and use tax on purchases of equipment and construction of capital projects can also be financed. More detailed information on the allowable uses of tax-exempt financing is provided in Chapter 4. All property financed on a tax-exempt basis is subject to federal tax restrictions regarding private business use (see Financing Guidelines Appendix).

Certificates of participation

The lease/purchase program provides agencies with an alternative way to finance essential real estate and equipment over a multi-year period. The program is structured so agencies benefit from economies of scale and the state's low tax-exempt financing rates when financing contracts are consolidated or "pooled" and sold to investors as COPs. COPs offer investors ownership interests or participation in the lease payments made by state agencies.

This form of financing contracts is subject to approval by the State Finance Committee, which also approves the aggregate amount of financing contracts outstanding. State Finance Committee guidelines for use of the program are provided in Guidelines for Use of Financing Contracts.

State law requires prior legislative approval of real estate financing contracts in the capital budget. Most equipment financings do not require explicit legislative authorization, although the Office of the State Treasurer (OST) policy requires legislative approval prior to financing major acquisitions of equipment or information systems.

Program parameters. Proceeds of tax-exempt financing contracts must be spent on capital expenditures, in accordance with state accounting guidelines and under federal tax laws. All property financed on a tax-exempt basis is subject to federal tax restrictions regarding private business use (see Financing Guidelines Appendix). Financing contracts cannot be used to provide funds for grants or loans. Proceeds of financing contracts must be spent on assets serving an essential public purpose. Agencies must represent that the property is essential for carrying out its functions and responsibilities.

Certain upfront costs such as design, delivery, setup and some training qualify for financing. Expenditures for sales and use tax on purchases of equipment and construction of capital projects can be financed. Note that design costs may not be financed before equipment is acquired or construction begins because design, by itself, does not create a tangible asset. More detailed information on the allowable uses of tax-exempt financing is provided in Chapter 4.

A real estate project must be ready to proceed before it is financed. For acquisitions, agencies must first acquire the building or land and obtain title to the property prior to issuing COPs. For new construction, OST requires agencies to have entered into a construction, design-build or general contractor/construction manager (GCCM) contract for the project prior to issuing COPs. Construction projects are subject to public works requirements. Generally, proceeds must be spent within 18 months.

Long-term, tax-exempt financing restricted to capital projects

Regulations adopted by IRS restrict the purposes for which tax-exempt bonds and COPs may be issued. IRS regulations severely limit the ability to issue long-term, tax-exempt obligations to finance current operating expenses. The use of long-term, tax-exempt financing for capital projects or purposes is treated relatively more favorably because the proceeds of the obligations are used to pay capital expenditures for capital projects that have useful lives reasonably commensurate with the maturities of the obligations being issued to finance the expenditures. The information below distinguishes allowable capital purposes from non-allowable operating expenses.

Agency administrative and staffing costs

Proceeds of tax-exempt bonds or financings are intended for the acquisition, construction and renovation of capital assets. Do not use them to subsidize operating costs such as ordinary maintenance or administrative staff expenses. IRS tax rules relating to staffing costs are very restrictive.

Allowed:

- Project administrative costs for tasks directly related to a financed project, including project support services such as processing agreements, contracts and change orders; managing bid processes and verifying invoices. Project-related administrative costs must be identified as such in accounting records.
- Project management fees for project design, land use applications, environmental impact statements and other environmental assessments, hazardous material assessments and building-code plan review. This also covers project management costs related to consultant selection, contract negotiation, administration of consultant agreements and public works contracts for individual capital projects. These costs must be identified as such in accounting records.
- Staff costs for the time and expenses directly related to coordinating and delivering a project. Project-related staff costs must be identified as such in accounting records.
- Tasks associated with the support of project management operations for multiple projects including staff management, staff support, accounting and management of public information regarding the capital project.

Not allowed:

- Regular staff operating costs.
- Agency administrative costs related to capital budget development, capital facility development, long-range budget planning and policy initiatives.
- Non-project specific tasks associated with regulation and policy development, contract development, interagency initiatives or legislative oversight.
- Non-project specific tasks associated with overall general comprehensive planning for facilities and infrastructure, the identification and prioritization of capital projects and the preparation of agency capital requests.
- The provision of emergency services and infrastructure management.

Additional COP financing restrictions. As part of the reimbursement process, OST requires detailed accounting records to document staff time or other labor charges. Contact OST for further information on the requirements.

Acquisition – land and buildings

Allowed:

- Expenditures for the acquisition of real property, whether obtained by purchase or condemnation under the applicable eminent domain laws of the state, including expenses directly and necessarily related to such purchase or condemnation.
- The cost of improvements to real property, such as buildings, structures, land improvements, roads and bridges. Costs may include land and improvement costs, appraisal fees, title opinions, surveying fees, real estate fees, title transfer taxes, easements of record with an extended term, condemnation costs and related legal expenses.
- Relocation costs that are payments made to owners or occupants of property that the state is acquiring. These costs can be financed long-term when paid pursuant to federal or state statutes.

Planning and consultant services for predesign and design work

Allowed:

- Preliminary technical studies developed from program statements that reflect the functional characteristics and architectural requirements of a specific capital improvement project (predesign).
- Architectural and engineering services, such as schematic design, design development and construction documents.
- Reimbursable expenses provided in an executed contract for professional and technical services.
- Fees for construction management and observation.
- LEED™ certification fees as part of a construction project.

Not allowed:

- Expenditures for general long-range development plans, master plans, historical or archeological research, feasibility studies, statements, energy audits or other similar expenditures which are not associated with a specific capital project.
- Unpredictable or unusual legal expenses (other than those associated with land acquisition) which are not ordinarily provided in the budget for a capital project.

Additional COP financing restrictions: Design costs for a capital project may not be financed with a COP before construction begins because design, by itself, does not create the tangible asset which is necessary to secure the financing. Once construction contracts are executed and COPs are issued, certain upfront costs such as design, delivery, setup and some training may be reimbursed from COP proceeds.

Construction

Site improvement costs

Allowed: Site improvement such as demolition of buildings and structures; construction or replacement of sidewalks, bridges, ramps, curbs, pedestrian bridges and tunnels, building terraces, retaining walls and exterior lighting surface parking areas; removal of trees and plant material; grading; rerouting of utilities; and erosion control may be financed if they precede a financed project to be undertaken on the same site.

Not allowed:

- Routine maintenance of land improvements.
- Expenditures to acquire or construct temporary facilities or for facilities where abandonment or replacement is imminent. This does not include temporary facilities required by a contractor during construction.

Roadwork

Allowed: Expenditures related to the construction, extension, replacement, reconstruction or upgrading of a new road or parking lot. The following are considered part of roadwork costs: all necessary signing, landscaping, erosion control, drainage, lighting, bridges, safety and control structures.

Not allowed: Repairs or resurfacing of existing roads to temporarily extend useful life are not allowed.

Facilities preservation

Allowed:

- Expenditures for the reconstruction, preservation and improvement of existing buildings or structures that materially extend their useful lives, including:
  - Site developments necessarily required or related to the preparation of a site for reconstruction purposes (see “Site Improvement Costs”).
  - Required built-in, special purpose or other fixed equipment where such equipment is permanently affixed or connected to real property in such a manner that removal would cause damage to the real property to which it is affixed.
  - Expenditures for the installation or replacement of water control structures such as dams, culverts, aqueducts, drainage systems, locks, spillways, reservoirs and channel improvements.
- Interior work including: demolition, moving walls, new carpet or floor surfaces, new finishes, replacement of electrical and plumbing facilities and installation of new fixed or movable equipment.

Not allowed:

- Normally recurring expenses.
- Labor fees associated with moving equipment between facilities.
- Ordinary maintenance such as patching, painting, caulking, weatherproofing, insulating, adding storm windows, replacing doors, replacing gutters and shingles, repairing vandalism or cleaning. An aggregation of ordinary maintenance does not create a long-term financed capital project.

Utilities, safety and codes

Allowed: Expenditures for the acquisition, construction, replacement, modification or extension of utility systems, including construction or replacement of utility lines between buildings, replacement or installation of utilities to off-site supply systems, and replacement of complete boiler or central air conditioning or ventilation systems.

Not allowed: Minor replacement of corroded or leaking pipes inside a facility; replacement of unsafe or undersized wiring; repairs to stop leaks; replacement of heating or cooling coils; replacement of radiators, fans or motors; re-tubing of boilers; addition of controls or valves for energy conservation; or replacement of thermostats, timers and other items that are consumed or worn out in the ordinary course of use of a capital facility.

Equipment

Allowed:

- *Built-in equipment* permanently attached to the building or improvement and considered to be an integral part of the structure, without which the building or improvement will not function. Built-in equipment is generally included in the base construction budget and estimate. Examples include plumbing fixtures, heating, ventilation and air-conditioning equipment, electrical equipment, elevators and escalators.
- *Fixed equipment* attached to the building or improvements for purposes of securing the item and contributing to the facility’s function. Fixed equipment is generally included in the base construction budget and estimate. Examples include shelving, cabinets and bolted furniture.

- *Some movable equipment* may be allowed if it is necessary for the functioning of the building or improvement and remains with the facility in support of a program, even though it is not attached to the building or improvement. Movable equipment is generally included in a separate equipment budget and estimate. Examples include desks and computers. Check with your capital analyst if you have questions.
- Some costs of purchasing or developing *information/software systems* may be allowed. For additional information, consult with your capital analyst.

Not allowed:

- *Consumable inventories*, as defined in the State Administrative and Accounting Manual (SAAM), are supplies consumed in the course of an agency's operation or incidental items held for resale. Examples include office, janitorial and chemical supplies and laboratory glassware.
- *Spare or replacement parts for equipment.*
- *Temporary equipment* to be used for a period less than its useful life. For example, research equipment for a short-term project.
- *Additional COP financing restrictions:* Agencies considering COP financing for IT projects should contact OST early in the planning process and be aware that prior legislative approval is required for major acquisitions. Agencies are also required – without exception – to receive explicit vendor permission to grant a security interest in information system property. More information about financing IT projects are in OST's Lease/Purchase Program Guide.

Private activity restrictions on tax-exempt financing

All agencies planning to finance capital projects with bonds or COPs, and who anticipate engagements with nongovernmental entities on their projects, are strongly encouraged to consult with OST's tax counsel early in the process.

Private business use

IRS regulations restrict the amount of proceeds of any tax-exempt issue of bonds or COPs that are for any private business use. For this purpose, the term "private business use" means use by any person other than the state or another local government unit of the state, and includes use by any private for-profit or nonprofit corporation, limited liability company, general or limited partnership, association or an individual person engaged in a trade or business activity. It also includes use by the federal government or any federal agency.

For more information, see the Financing Guidelines Appendix.

CHAPTER 5

BUDGET IMPLEMENTATION

The capital budget is enacted after the House and Senate pass, and the Governor signs, a compromise budget. For more information, see A Guide to the Washington State Budget Process.

Once the budget is enacted, agencies must follow a process before spending their appropriation. This chapter outlines the steps for agencies to expend funds, beginning with OFM assigning an Expenditure Authority (EA) code.

Allotments

After the EA code is assigned, agencies must submit allotments for expenditures, revenues and FTEs.

The Budget, Accounting, and Reporting System Act (Chapter 43.88 RCW) outlines the legal authority and responsibility of the Governor and OFM to allot public funds. OFM publishes allotment instructions that describe the agency's responsibilities and requirements for submitting initial allotments, amended allotments and special allotments to detail the plan of expenditures, revenue estimates and related full-time equivalent (FTE) estimates of enacted budgets. (Visit OFM's website for the allotment instructions after the 2019-21 budget is enacted.)

Agencies must use The Allotment Management and Review System (TALS-AMR) for submitting allotments to OFM. No expenditures may be incurred prior to OFM approval of allotments.

Minor works lists

Once the capital budget is enacted, submit final minor works project lists, including requested revisions to the project lists, to OFM for review and approval, and to the House Capital Budget and Senate Ways and Means committees for review and comment.

Minor works lists submittal must include:

- Parent project number and project title.
- Minor works projects and budget estimates.
- Explanation of variances from the enacted capital budget minor works lists.
- Alternate minor works projects, if applicable.

No expenditures may be incurred prior to OFM's written approval of the updated minor works lists and allotment schedule. With OFM approval, savings from a minor works subproject may be transferred to another minor works subproject for which the project budget allocation is insufficient, or to fund an alternate minor works subproject that is approved by OFM. Minor works projects must be completed within the biennium in which they were appropriated.

Major project status and final closeout reports

Agencies administering a major capital project or projects specifically identified for reporting requirements by OFM, as required by RCW 43.88.160, must submit a major project status report to OFM each July 1 and December 31.

After a major project is completed, an agency must also submit a major project final closeout report to OFM. Agencies must report project savings following the completion of projects to OFM.

Agencies must use the report template posted on OFM's website. Contact a capital budget analyst with any questions.

Transfers

Subject to certain restrictions, the Governor, through OFM, may transfer project savings to another project for which the appropriation is insufficient (RCW 43.88.145). An agency may request such a transfer by submitting a letter to OFM. No expenditures may be incurred prior to OFM approval of the transfer request and allotment schedule.

Status updates for reports and studies funded by the budget

NEW !

Please check in quarterly with your capital budget analyst to update them on reports and studies funded by the capital budget. This update should identify any risks to the successful, on-time completion of the study or report. For cabinet agencies, at least two weeks must be included in the project schedule for OFM budget and Governor's Office policy review. Please submit completed reports and studies to OFMPolicy@ofm.wa.gov.

Life cycle cost analysis and life cycle cost tool

These life cycle cost analysis tools use a Washington-specific discount rate to estimate the present value of future costs. This rate is updated annually and is identified in both Excel workbooks available on OFM's website.

During predesign

For predesign projects, agencies must use OFM's life cycle cost analysis (LCCA) model to compare the long-term costs of project alternatives (RCW 39.35B.050). This tool evaluates the tradeoff over time from increased capital investment in the purchase and/or construction of facilities. Please refer to the predesign manual for more information.

The model and instructions are available on OFM's website.

During design, construction, and project close

After a project enters the design phase, agencies must use OFM's life cycle cost tool (LCCT) to demonstrate how the building design contributes to energy efficiency and conservation. The LCCT is required for facilities with an area of 5,000 square feet or greater (Executive Order 13-03). The LCCT evaluates the tradeoff over time from increased initial capital investment in high-performance energy system components that may include, but are not limited to, the building envelope, HVAC system, water-using fixtures and/or lighting. OFM will not allot construction funds until the analysis is completed.

The tool, instructions and training webinars are located on OFM's forms page.

State efficiency and environmental performance executive order

NEW !

The state efficiency and environmental performance executive order requires some newly constructed, state-owned (including lease purchase) buildings be designed as net-zero energy or net zero-energy capable, and include consideration of net embodied carbon. In situations where a cost effective zero-energy building is required and not yet technically feasible, buildings must be designed to exceed the current state building code for energy efficiency to the greatest extent possible (Executive Order 18-01).

Bond fund cash flow plans

The Office of the State Treasurer (OST) conducts a regular survey to collect updated information on agency cash flow needs. This assists in planning future bond sales. Some agencies, as requested, must complete and return the bond fund cash flow estimates form, expected use of proceeds form, and any supporting materials to OST by the due date.

CHAPTER 6

SUPPORT AND CONTACT INFORMATION

CBS support

For assistance in using the Capital Budgeting System (CBS), a user tutorial is located at http://BASS.ofm.wa.gov/BASSPR/library/ or for Fortress agencies, at https://fortress.wa.gov/ofm/bass/BassPR/library/default.htm.

Direct questions to the OFM HelpDesk by telephone (360) 407-9100 or email.

OFM capital budget staff contacts

If you have questions about these instructions or specific capital budget requests, contact your assigned capital budget analyst.

Other contacts

Arts allocation
Karen Hanan, Washington State Arts Commission, (360) 753-3860

Growth Management Act compliance/local government contacts
David Andersen, Department of Commerce, (509) 434-4491

Bond fund cash flow plans
Leslie Yonkers, Office of the State Treasurer, (360) 902-9020

Certificates of participation
Wendy Kancianich, Office of the State Treasurer, (360) 902-9022

Archaeological and cultural resources
Allyson Brooks, Department of Archaeology and Historic Preservation, (360) 586-3066

Building commissioning, energy services and LEED™
Engineering and Architectural Services, Department of Enterprise Services, (360) 902-7272

Puget Sound recovery
Diamatris Winston, Puget Sound Partnership, (360) 464-1231

Recreation and Conservation Office grant programs
Mark Jarasitis, Recreation and Conservation Office, (360) 902-3006

Office of the Chief Information Officer
ociopolicy@ocio.wa.gov

Additional copies of capital budget instructions.

APPENDICES

Appendix 1: Agency budget submittal dates

No later than Sept. 12, 2018:

080 Office of the Lieutenant Governor
082 Public Disclosure Commission
086 Governor's Office of Indian Affairs
087 Commission on Asian Pacific American Affairs
090 Office of the State Treasurer
095 Office of the State Auditor
099 Commission on Salaries for Elected Officials
100 Office of the Attorney General
101 Caseload Forecast Council
104 Economic and Revenue Forecast Council
110 Office of Administrative Hearings
116 Washington State Lottery
117 Gambling Commission
118 Commission on Hispanic Affairs
119 Commission on African-American Affairs
120 Human Rights Commission
124 Department of Retirement Systems
126 State Investment Board
140 Department of Revenue
142 Board of Tax Appeals
147 Office of Minority & Women's Business Enterprises
160 Office of the Insurance Commissioner
163 Consolidated Technology Services
165 Board of Accountancy
167 Forensic Investigations Council
179 Department of Enterprise Services
185 Horse Racing Commission
190 Board of Industrial Insurance Appeals
205 Board of Pilotage Commissioners
220 Board for Volunteer Firefighters
227 Criminal Justice Training Commission
228 Traffic Safety Commission
305 Department of Veterans Affairs
315 Department of Services for the Blind
340 Student Achievement Council
341 LEOFF Plan 2 Retirement Board
351 School for the Blind
353 Center for Childhood Deafness and Hearing Loss
355 Department of Archaeology and Historic Preservation
390 Washington State Historical Society
395 Eastern Washington State Historical Society
406 County Road Administration Board
407 Transportation Improvement Board
410 Transportation Commission
411 Freight Mobility Strategic Investment Board
460 Columbia River Gorge Commission
462 Pollution Liability Insurance Program
467 Recreation and Conservation Funding Board
468 Environmental and Land Use Hearings Office
471 State Conservation Commission
701 Treasurer's Transfers
705 Treasurer's Deposit Income
740 Contribution to Retirement Systems

No later than Sept. 12, 2018 (due date for local fund statements):

106 Economic Development Finance Authority
148 Housing Finance Commission
346 Higher Education Facilities Authority
356 Life Sciences Discovery Fund Authority
412 Materials Management and Financing Authority
500 Apple Commission
501 Alfalfa Seed Commission
502 Beef Commission
503 Blueberry Commission
505 Bulb Commission
515 Fruit Commission
521 Hardwoods Commission
522 Hop Commission
524 Puget Sound Gillnet Salmon Commission
525 Potato Commission
526 Strawberry Commission
528 Mint Commission
529 Red Raspberry Commission
530 Seed Potato Commission
532 Turf Grass Seed Commission

506	Asparagus Commission
507	Cranberry Commission
508	Canola and Rapeseed Commission
510	Dairy Products Commission
512	Dry Pea and Lentil Commission
533	Tree Fruit Research Commission
534	Wine Commission
535	Grain Commission
545	Beer Commission
599	Health Care Facilities Authority

No later than Sept. 14, 2018

001	State Revenues for Distribution
005	Federal Revenues for Distribution
010	Bond Retirement and Interest
011	House of Representatives
012	Senate
013	Joint Transportation Committee
014	Joint Legislative Audit and Review Committee
020	Legislative Evaluation and Accountability Program (LEAP) Committee
035	Office of the State Actuary
037	Office of Legislative Support Services
038	Joint Legislative Systems Committee
040	Statute Law Committee
045	Supreme Court
046	Law Library
048	Court of Appeals
050	Commission on Judicial Conduct
055	Administrative Office of the Courts
056	Office of Public Defense
057	Office of Civil Legal Aid
075	Office of the Governor
076	Special Appropriations to the Governor
085	Office of the Secretary of State
102	Department of Financial Institutions
103	Department of Commerce
105	Office of Financial Management
107	Health Care Authority
195	Liquor Control Board
215	Utilities and Transportation Commission
225	Washington State Patrol
235	Department of Labor and Industries
240	Department of Licensing
245	Military Department
275	Public Employment Relations Commission
300	Department of Social and Health Services
303	Department of Health
307	Department of Children, Youth and Families
310	Department of Corrections
350	Office of Superintendent of Public Instruction
354	Workforce Training and Education Coordinating Board
359	Washington State Charter School Commission
360	University of Washington
365	Washington State University
370	Eastern Washington University
375	Central Washington University
376	The Evergreen State College
380	Western Washington University
387	Arts Commission
405	Department of Transportation
461	Department of Ecology
465	State Parks and Recreation Commission
477	Department of Fish and Wildlife
478	Puget Sound Partnership
490	Department of Natural Resources
495	Department of Agriculture
540	Employment Security Department
699	Community and Technical Colleges

Appendix 2: Information technology

NOTE: Only use this addendum if your DP includes IT and does NOT relate to the One Washington project.

Part 1: Itemized IT costs

Please itemize all IT-related costs, including hardware, software, services (including cloud-based services), contracts (including professional services, quality assurance, and independent verification and validation), or IT staff. When itemizing costs, please consider the total cost of the combined level of effort which includes: the associated costs, from planning through closeout, of state, vendor, or both, in order to purchase, acquire, gather and document requirements, design, develop or configure, plan or conduct testing, and complete implementation of enhancement(s) to an existing system.

Information Technology Items in this DP **(*insert rows as required*)**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Item 1	xxx	yyy	zzz	aaa
Item 2	xxx	yyy	zzz	aaa
Total Cost	**Enter Sum**	**Enter Sum**	**Enter Sum**	**Enter Sum**

Part 2: Identifying IT projects

If the investment proposed in the decision package is the development or acquisition of an IT project/system, or is an enhancement to or modification of an existing IT project/system, it will also be reviewed and ranked by the OCIO as required by RCW 43.88.092. The answers to the three questions below will help OFM and the OCIO determine whether this decision package is, or enhances/modifies, an IT project:

1. Does this decision package fund the development or acquisition of a new or enhanced software or hardware system or service? ☐Yes ☐ No
2. Does this decision package fund the acquisition or enhancements of any agency data centers? (See OCIO Policy 184 for definition.) ☐Yes ☐ No
3. Does this decision package fund the continuation of a project that is, or will be, under OCIO oversight? (See OCIO Policy 121.) ☐Yes ☐ No

If you answered "yes" to any of the above questions, you must answer the questions in Part 3 to finish the IT Addendum. Refer to Chapter 10 of the operating budget instructions for more information and a link to resources and information about the evaluation criteria questions.

Part 3: IT project questions

Agency readiness/solution appropriateness

Organizational change management

1. Describe the types of organizational changes expected because of this effort. How has your agency considered these impacts in planning the project and within this funding request? Include specific examples regarding planned Organizational Change Management (OCM) activities and whether or how the requested funding will support these efforts.

Agency technology portfolio risk assessment

2. How does this project integrate into and/or improve the overall health of your agency's IT portfolio? Include specific examples such as system efficiencies, technology risks mitigated, technology improvements achieved, etc.

Solution scale

3. Explain how this investment is scaled appropriately to solve the proposed business problem. Described what considerations and decisions the agency has made to determine the sizing of this investment and why it is appropriate to solve the business problem outlined in the decision package.

Resource availability

4. How has the agency determined the resources required for this effort to be successful? How does this funding request support that resourcing need? If the agency intends to use existing resources for this effort, how are risks around resource availability being addressed?

Investment urgency

5. With regards to the urgency of this investment, please select one of the following that most closely describes the urgency of your investment, and explain your reasoning:

☐ This investment addresses a currently unmet, time sensitive legal mandate or addresses audit findings which require urgent action.
Reason:

☐ This investment addresses imminent failure of a mission critical or business essential system or infrastructure and will improve that issue.
Reason:

☐ This investment addresses an agency's backlog of technology systems and provides an opportunity for modernization or improvement.
Reason:

☐ This investment provides an opportunity to improve services, but does not introduce new capability or address imminent risks.
Reason:

Architecture/Technology Strategy Alignment

Strategic alignment

6. Using specific examples, describe how this investment aligns with strategic elements of the Enterprise Technology Strategic Plan. Examples of strategic principles that tie back to tenets of the strategic plan include, but are not limited to: buy don't build, solutions hosted on modern hosting solutions, solutions promoting accessibility, early value delivery of functionality throughout the project, and modular implementation of project features.

Technical alignment

7. Using specific examples, describe how this investment aligns with technical elements of the Enterprise Technology Strategic Plan. Examples of technical principles that tie back to tenets of the strategic plan include, but are not limited to: data minimization, incorporating security

principles into system design and implementation, publishing open data, and incorporating mobile solutions into systems.

Governance processes

8. What governance processes does your agency have in place to support this project, or what new governance processes will be introduce to accommodate this effort? Examples of governance processes include executive sponsorship and steering, vendor/contract management, change control, quality assurance (QA), independent verification and validation (IV&V), and incorporating stakeholder feedback into decision making processes. Provide examples of how your proposed budget includes adequate funding and planning for governance processes, if applicable.

Interoperability, interfaces and reuse

9. Does this proposed solution support interoperability and/or interfaces of existing systems within the state? Does this proposal reuse existing components of a solution already in use in the state? If the solution is a new proposal, will it allow for such principles in the future? Provide specific examples.

Business/Citizen Driven Technology

Measurable business outcomes

10. Describe how this proposed IT investment improves business outcomes within your agency? Provide specific examples of business outcomes in use within your agency, and how those outcomes will be improved as a result of this technology.

Customer centered technology

11. Describe how this proposed investment improves customer experience. Include a description of the mechanism to receive and incorporate customer feedback. If the investment supports internal IT customers, how will agency users experience and interact with this investment? If the customers are external (citizen), how will the citizen experience with your agency be improved as result of implementing this investment? Provide specific examples.

Business process transformation

12. Describe how this IT investment supports business processes in your agency. Include the degree of change anticipated to business processes and the expected improvements as a result of this technology. Describe how the business and technology will coordinate and communicate project tasks and activities. Provide specific examples of how business processes are related to this technology and expected improvements to business processes as a result of implementing this technology.

Appendix 3 - Financing guidelines

General obligation bonds

Authorization

All state general obligation debt must be authorized by a 60 percent vote by the Legislature. In addition, no bonds may be issued without prior legislative appropriation of the proceeds. Bonds are issued by the State Finance Committee under the authority granted by the Legislature. As authorized by the State Finance Committee, the issuance of bonds is administered by the Office of the State Treasurer (OST).

Consolidated Cash Flow Financing. OST manages cash flow financing for multiple projects across multiple agencies in accordance with U.S. Treasury regulations to minimize administrative tax compliance monitoring over the life of the borrowing. Bond sales are sized to fund agency and OFM estimates of expected capital expenditures over a six-month period. In estimating cash flow needs, OST also takes into account remaining bond proceed balances and seasonal spending patterns. This type of cash-flow financing ensures that funds are not borrowed until they are needed. Consolidating funding needs also produces pricing efficiencies in the sale of bonds, ensuring the state receives the lowest possible cost for all capital projects. It results in issuance amounts which meet the minimum size thresholds preferred by investors and minimizes the costs of issuance such as underwriting, legal, and rating agency fees. Bond proceeds received on the closing date are immediately transferred to the appropriate funds as directed in the capital budget.

25-Year Final Maturities with Level Debt Service. VPGO bonds are typically structured with level payments of principal and interest over a 25-year period. This serial amortization structure provides a disciplined repayment schedule which spreads the cost of the project over the life of the asset. It means that some of the bonds are repaid one year after issuance, some in the second year, some in the third year and so forth each year until the last bonds are repaid in 25 years. In an interest rate environment with higher rates at longer maturities, serial amortization is also less expensive than repaying the debt at one maturity. The true interest cost (TIC) of the entire series is a weighted average of interest rates between one and 25 years. In fact, as the average life of a 25-year bond with level debt service is approximately 12 years, the TIC of the entire series is the tax-exempt rate for that term. To meet the requirements of the federal Internal Revenue Code (the "Code"), the aggregate projects funded with each series of bonds – that is the assets being purchased or constructed – must exceed the final maturity of the bonds. For every series of bonds, OFM certifies that this requirement has been met.

Certificates of participation

The certificate of participation program uses standardized documentation, which minimizes legal and administrative costs for agencies. Once financing documents have been completed and borrowing rates set by the market, each agency receives a detailed schedule of semi-annual payments due on its outstanding leases. Funds are made available to agencies on a reimbursement basis upon receipt of detailed invoices and proof of payment. To ensure compliance with tax and legal requirements, OST periodically requests information to monitor the spend-down of proceeds and the use of the facilities that have been financed.

Authorization

The state is authorized by Chapter [39.94](#) RCW to enter into financing contracts for agencies to acquire real and personal property (real estate and equipment). Financing contracts are lease/purchase contracts or capital leases with a term of more than one year, which (1) provide that title to the property secures performance of the State, or (2) transfer title to the property to the State by the end of the term. Each agency financing equipment or real estate under this program pledges its budget appropriation for payment of the lease. This is true regardless of whether it may anticipate making payments from other revenues. Additional information is available in the Lease/Purchase Program Guide.

The form of financing contracts is subject to approval by the State Finance Committee, which also approves the aggregate amount of financing contracts outstanding. State Finance Committee guidelines for use of the program are shown in Guidelines for Use of Financing Contracts.
State law requires prior legislative approval of real estate financing contracts, typically in the capital budget. Most equipment financings do not require explicit legislative authorization, although OST policy requires legislative approval prior to financing major acquisitions of equipment or information systems.

Project Financings. Unlike bonds, COP borrowings are "secured" financings, i.e., in certain situations investors have rights to the underlying property if investors are not repaid on a timely basis. For this reason, COP financings are for tangible assets that could be relinquished if the Legislature chooses not to appropriate funds for lease payments. Agencies must be able to offer a security interest in the asset being acquired and must commit to maintain the property in working order and condition over the life of the borrowing. If a state agency cannot reasonably make these representations about the property to be financed, the property is not suitable for COP financing.

Borrowing Term. The term of each financing contract must be greater than one year and no longer than the expected useful life of the asset being financed. Standardized guidance on the useful life of specific assets is available in the OFM State Administrative & Accounting Manual (SAAM), Chapter 30.50, Capital Asset Class and Location Code List and Useful Life Schedules. For unique or used equipment, OST staff can provide assistance. OST limits the maximum maturity to 20 years in order to efficiently pool multiple transactions in each COP issuance.

For administrative efficiency, OST has established a minimum borrowing threshold of $10,000 for each lease. Combine smaller financing requests for equipment of the same expected useful life.

Other financing contracts

Occasionally the state finances construction projects with a 63-20 financing contract. In this structure, tax-exempt lease revenue bonds are issued by a non-profit corporation on behalf of the state. The non-profit corporation causes the project to be built through a fixed price contract with a private real estate development company. The state agency makes lease payments over time to a trustee and takes title to the property at the final maturity. Costs of issuance and ongoing fees on 63-20 financings are typically higher than on COP financings and the borrower usually pays higher interest rates. Use of a 63-20 financing contract requires legislative authorization. In addition, the State Finance Committee must approve both the financing contract and the non-profit corporation issuing the lease revenue bonds on behalf of the state. For additional information, consult the State Finance Committee's Guidelines for the Use of 63-20 Financing Contracts.

Private activity restrictions on tax-exempt financing

In general, Congress and the federal government consider the tax exemption for interest on state and local bonds to be a federal subsidy provided to state and local governments. This is because the federal government foregoes the revenues that it would otherwise receive from income taxes imposed on interest income received by taxpayers who own municipal bonds. Therefore, the provisions of the federal Code and related U.S. Treasury regulations that apply to tax-exempt obligations are intended to restrict the benefits of this federal subsidy to governmental purposes of state and local governments and not to allow benefits of the subsidy to be transferred to persons other than state and local governments.

Private business use includes: ownership by the nongovernmental person of the financed property or use of the financed property by a nongovernmental person under a lease, management contract (unless it is a "qualified" management contract under IRS guidelines), "output contract" (such as a contract to purchase water or electricity produced by a financed facility), research agreement (with certain exceptions under IRS guidelines), a "naming rights" contract, or any other arrangement that provides similar "special legal entitlements" to a nongovernmental person to use the financed property. However, use of financed property by a nongovernmental person simply as a member of the general public or under certain, specified short-term use arrangements (involving terms of use not exceeding 50, 100 or 200 days, depending on the type of arrangement) do not result in private business use. Also, use of financed property by private individuals not engaged in a trade or business activity is not private business use.

Limits on private business use
In general, the amount of private business use of proceeds of a tax-exempt governmental financing is limited to the lesser of 10 percent or $15 million of proceeds of the issue. In addition, no more than 5 percent of the proceeds of the issue may be used for any "unrelated" private business use — i.e., a private business use that is not functionally related to the governmental purpose of the tax-exempt financing. These limitations are measured on the basis of the average amount of private business use in each year during a measurement period generally corresponding with the overall term of the bond or COP issue.

Private payments or security
An issue of tax-exempt bonds with private business use in excess of the limits described above would not violate private activity bond restrictions *unless* the state also expects to receive payments from private business users for their use of the financed property (or payments by others in respect of property that is used for private business use) having a present value exceeding 10 percent of the present value of debt service on the bonds, regardless of whether those payments are pledged to pay the bonds. For this reason, bond proceeds used to make grants may be used for private business use so long as the state has no expectation or right to receive payments from the grantee (except only for violations by the grantee of conditions of the grant). Loans to nongovernmental persons from bond proceeds are not permitted as there would be both private use and private payments.

Moreover, use of tax-exempt bond proceeds to make loans to governmental persons also may be disallowed because of federal tax compliance issues relating to monitoring of the actual expenditure and investment of bond proceeds loaned to the governmental borrower. This is because the bond proceeds are treated as "spent" only when spent by the borrower and not when used to make the loan.

However, for COPs, the focus is on the amount of private business use of the financed property regardless of whether the state receives any payments in respect of the financed property. This is because the financed property itself is pledged as security for the COPs, and private business use of the financed property will result in a corresponding amount of private security for the COPs. Although an issue of COPs generally would violate private activity bond restrictions if payments from private business users with respect to the financed property were to exceed the applicable limitations, the issue could violate private activity bond restrictions because of private security rather than private payments. That is, if a portion of the COP-financed property representing more than the lesser of 10 percent or $15 million of proceeds of the COP issue is used for private business use, or if more than 5 percent of the proceeds of the issue is used for any "unrelated" private business use, this would case the issue to violate the restrictions on private security as distinguished from private payments.

Strict limit on tax-exempt financing of private loans
In addition, under a separate and independent restriction, no more than the lesser of 5 percent or $5 million of the proceeds of an issue may be used, directly or indirectly, to make or finance loans to any person other than a state or local government unit. This is referred to as the "private loan financing test." Because of the size of the state's bond issues, the lower $5 million limit almost always applies.

Use of taxable obligations for private use portions of capital projects
A capital project that is expected to involve private business use in an amount exceeding the limits described above may require some or all of the financing to be executed on a taxable rather than tax-exempt basis, or require the use of funds not derived from a borrowing to pay the cost of that part of the project expected to be used for a private business use. If the project requires taxable funding, the agency may request funding from the State Taxable Building Construction Account (Account 355).

Most recent bond acts include provisions which permit the State Treasurer, on behalf of the State Finance Committee to cause bonds authorized to be issued as tax-exempt bonds instead to be issued as taxable bonds, if necessary to comply with IRS requirements. Recent bond acts also permit authorized taxable bonds to be issued as tax-exempt bonds using a similar approval process if Code requirements have been met.

Use of taxable obligations for private use portions of capital projects
Examples of Private Business Use

1. If a state agency leases excess office space in a financed building to commercial businesses, a federal agency, or a private non-profit organization, the portion of the proceeds allocated to the cost of the privately leased space is considered used for nongovernmental purposes.
2. Suppose bond proceeds are used to make a loan to a port district for the construction of an industrial building, and that the port district constructs the building and leases space in the building to various commercial tenants and uses rental income from the building to repay the state loan. In this case, the bond proceeds used to make the loan to the port district would be treated as a private business use.
3. If proceeds of a bond issue with a 25-year term are used to construct leasehold improvements for a state agency that leases office space in a privately owned building for a term of 15 years, and the estimated useful life of the leasehold improvements is 20 years, the proceeds of the bond issue allocable to the cost of the leasehold improvement that will revert to the private building owner at the end of the lease term would be treated as used for private business use.
4. If proceeds are loaned to a housing authority to build an apartment building that the housing authority leases to a separate limited partnership in which the housing authority is the general partner and private investors are limited partners, the financed apartment building is considered used for private business use, and the private loan financing test would be met.

5. If proceeds are loaned to a city to build a sewage treatment plant, but the city enters into a long-term management contract with a private company to operate the sewage treatment plant for the city, and the management contract fails to meet Internal Revenue Service requirements for a "qualified management contract," the plant is considered used for a nongovernmental purposes.

An agreement by a nongovernmental person (such as a business corporation or the federal government) to sponsor research performed by a governmental person (such as a state university) may result in private business use of the property used for the research. Consult tax counsel as it may be possible to structure research agreements with nongovernmental persons to avoid private business use of the property.