

CHAPTER 1

CAPITAL BUDGET BASICS

1.1 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.

If you have questions about these instructions or specific capital budget requests, contact your assigned capital budget [analyst](#).

1.2 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 public capital facilities and programs. A capital project is a project to construct either new facilities or make significant, long-term renewal improvements to existing facilities. Grants made by or passed through the state to fund projects for other entities are also included in the capital budget, and these instructions apply to those projects as well.

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 and are not an allowable use of state financed bonds.

1.3 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 costs expected to exceed \$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 by the Capital Projects Advisory Review Board (RCW 39.10.270 and RCW 39.10.280).

Grant and loan programs

Grant programs and projects provide capital appropriations to state and local governments, community organizations and tribes for public 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 appear as a parent project in the budget and include multiple subprojects valued between \$25,000 and \$1 million each (for higher education institutions, the range is \$25,000 and \$2 million).

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

1.4 REAPPROPRIATIONS

Because many capital projects and acquisitions require more than one biennium to complete, the capital budget includes reappropriations, which are unspent amounts from enacted 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 enacted appropriation for each project.

1.5 ADMINISTRATIVE AND STAFFING COSTS

Capital project administration costs are for activities directly related to the completion of a capital project or implementation of a program funded in the capital budget. See Chapter 4 for the appropriate use of tax-exempt bond proceeds related to agency administrative and staffing costs. Administrative costs for both grant and loan programs and construction projects are limited by the IRS (Chapter 4), OFM, and in some cases the Legislature. If you have questions about the use of a capital appropriation for administrative and staff costs, please contact your capital budget [analyst](#).

Agencies that employ full-time staff who directly support capital projects must identify these staff functions 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 program administration

Unless specified otherwise in law, an agency administering an existing grant or loan program may charge up to 3 percent of the total new appropriated project costs. Please contact your capital budget [analyst](#) if the agency believes 3 percent is not adequate to implement a program. Exceptions may be granted on a very limited basis with documentation justifying the need, which could include implementing a new program or federal requirements.

Agency construction project management and administration fees

The following guidelines will help clarify appropriate budgeting of administrative and project management expenses for the completion of capital construction 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) and the Excel C-100 form. Access the A/E fee [schedule](#) for more information. This rate is intended to be a ceiling, not a target. 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 and the C-100 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 at a fair and reasonable cost, rather than simply using the budgeted amount to establish the fees.