

## Chapter 1

# Capital Budget Basics

## 1.1 INTRODUCTION

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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, Office of Financial Management (OFM) and the Legislature as a basis for budget decisions.

## 1.2 WHAT IS A CAPITAL PROJECT?

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

Costs for routine maintenance work necessary to keep a facility or asset in useful condition are not typically included in the capital budget.

## 1.3 PHASES AND TYPES OF CAPITAL PROJECTS

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### 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 the information contained in the predesign 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 the [OFM 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 architect/engineer 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 to be released 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 an [OFM 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 period of time, would exceed \$1 million (or \$2 million for higher education).
- 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.
- Moving expenses.

## 1.4 REAPPROPRIATIONS

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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 two-year budget period that are necessary to complete a project. Reappropriations are not automatic; agencies must demonstrate the funds are needed to complete the previously approved scope of work.

## 1.5 ADMINISTRATIVE AND STAFFING COSTS

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Capital project administration costs are for activities directly related to the completion of a capital project or program. See Chapter 4.2 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 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. Access the A/E fee schedule at <http://www.ofm.wa.gov/budget/instructions/capital.asp>. 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. The Capital Budgeting System 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.