

# Study on Innovating State Capital Asset Management

Senate Interim Study 2019-25



## SECTIONS:

1. Overview of Capital Improvements Plan Process (slides 3-13)
2. Submitting Capital Outlay Requests (slides 14-27)
3. Examples of Other States (slides 28-34)
4. Thoughts on State Building Maintenance (slides 35-46 )
5. Contact Information & Questions

**SECTION 1:  
OVERVIEW OF THE CAPITAL  
IMPROVEMENTS PLAN PROCESS**



# The Capital Improvements Plan

## Relevant Statutes and Rules

- State Capital Improvement Planning Act, 62 O.S. §900 – 908
- Oklahoma Administrative Rules, Title 428
- Managed by the Long Range Capital Planning Commission (LRCPC)
- Staffed by OMES, Capital Assets Management – Planning
- Assisted by the State Bond Advisor's Office



# The Capital Improvements Plan

## Goal

- Systematically plan, schedule, manage, monitor and finance capital projects to ensure efficiency and conformance with state strategic objectives
- Directed by the LRCPC's *Guiding Principles for Real Property Asset Management*

# The Capital Improvements Plan

## Who participates?

- All state governmental entities, defined:  
“The State of Oklahoma or any agency, board, commission, authority, department, public trust of which the state is the beneficiary or other instrumentality of state government, other than a public trust with the state as a beneficiary whose jurisdiction is limited to one county...”

# The Capital Improvements Plan

## Who is exempted?

- The Ordnance Works Authority
- The Commissioners of the Land Office
- Public trusts with a jurisdiction limited to one county

# The Capital Improvements Plan

## How is the plan funded?

- Maintenance of State Buildings Revolving Fund
  - Sales proceeds from real property transactions
  - Direct appropriations
- Other sources
  - Agency revolving funds
  - Federal funds
  - Grants, gifts & donations
  - Section 13 and Section 13 Offset (higher ed.)



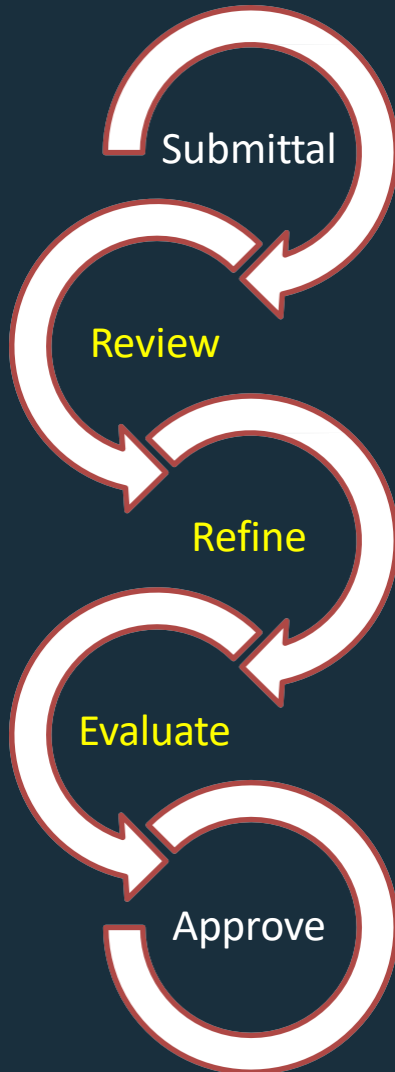
# The Planning Process



## Submittal

- Agency's internal development and prioritization of requests
- By June 30: Submit capital outlay requests to OMES-Planning utilizing provided spreadsheet

# The Planning Process



## Review, Refine & Evaluate

July-October

- Review by OMES-Planning using:
  - LRCPC Guiding Principles
  - Evaluation guidelines
  - Agency strategic plan
  - Statewide performance measures
- Submittal may be returned to agency for edits or additional information

## Plan Development

- OMES-Planning staff develops draft plan
- LRCPC Review:
  - First draft of plan presented in September
  - Final draft presented in November

# The Planning Process



## Plan Approval

- LRCPC approval
  - November/December
- Legislature approval
  - Plan submitted on or about December 1
  - Project list submitted within first 7 days of session
  - 45 days to review project list
  - May disapprove in whole or by line-item through a concurrent resolution
  - If no resolution by 45<sup>th</sup> day, plan is considered approved
  - Plan approval is a separate action from funding approval

# Implementation

- If plan is approved, project implementation begins July 1<sup>st</sup> (one year after submittal deadline)
- OMES-Construction and Properties (CAP) manages implementation of approved projects
- Implementation is contingent upon the Legislature appropriating funds to the Maintenance of State Buildings Revolving Fund.

# Timeline

2019

December 1:  
LRCPC submits  
CIP to  
Legislature

June 30:  
Request  
deadline for  
FY2021-2028  
CIP

2020

45 days:  
Legislature  
considers  
FY2021-  
2028 CIP

1<sup>st</sup> 7 days of  
session:  
LRCPC submits  
FY2021  
project list to  
Legislature

July 1:  
FY2021 Project  
Implementation  
begins

June 30:  
Request  
deadline for  
FY2022-2029  
CIP

2021

45 days:  
Legislature  
considers  
FY2022-  
2029 CIP

1<sup>st</sup> 7 days of  
session:  
LRCPC submits  
FY2022  
project list to  
Legislature

July 1:  
FY2022 Project  
Implementation  
begins

June 30:  
Request  
deadline for  
FY2023-2030  
CIP



# **SECTION 2: Submitting Capital Outlay Requests**



# LRCPC's Evaluation Guidelines



# What is a Capital Project?

- A planned expense for a facility or physical item requiring a minimum expenditure of **\$25,000**, having a useful lifespan of **five years** or more, and meeting one of the following definitions:
  - Involves the acquisition or construction of any physical facility;
  - Involves the acquisition of land;
  - Involves the acquisition or construction of public utilities;
  - Involves the acquisition of major equipment or physical systems, such as computer technology, communications systems, major specialized vehicles, etc.;





# What is a Capital Project? (con't)

- Involves modifications to facilities, including additions to existing facilities, which increases the useful life of the facility, and/or
- Capital maintenance or replacement projects on existing facilities, which are defined as non-recurring projects to repair, maintain or replace existing facilities for the purpose of protecting the state's investment in a facility and minimizing future maintenance and replacement costs. To be considered a capital maintenance project, a project must have an interval between expenditures of at least five years.

**Capital projects do not include normal operating expenditures for salaries, routine maintenance or repair, or activities associated with or consumed during a single fiscal year.**



# LRCPC's Evaluation Criteria

- Nine criteria adopted by the Long Range Capital Planning Commission
- Used to prioritize capital outlay requests for funding
- Agencies must self-rate their requests using the guidelines and associated rating scales
- Rating scales are included on submittal spreadsheet



# LRCPC's Evaluation Criteria

## A. Impact on Capital Costs

- Describe the project's ability to reduce capital costs by avoiding the snowball effect of deferred maintenance

### Considerations:

- Total cost of project
- Anticipated savings on capital expenses
- Will delaying the project escalate costs beyond normal inflation?

# LRCPC's Evaluation Criteria

## B. Impact on Operating Costs

- Describe the project's impact on the agency's operating budget.

### Considerations:

- Will the project increase/decrease:
  - Operating costs?
  - State revenues?
  - Productivity?

# LRCPC's Evaluation Criteria

## C. Leverage

- Describe how non-state funding will be leveraged to complete the project.

### Considerations:

- Amount of non-state funding used for project
- Ratio of non-state to state funding
- Is receipt of the non-state funding dependent on receipt of state funding for project?

# LRCPC's Evaluation Criteria

## D. Legal Obligations and Mandates

- Describe any court orders, federal mandates or state laws that require the project's completion.

### Considerations:

- Do existing laws make the project feasible?
- Is the agency under direct order to complete the project?
- Is the project needed to meet minimum federal or state requirements?

# LRCPC's Evaluation Criteria

## E. Impact on Service to the Public

- Describe how the proposed project improves the level of service provided by the agency.

### Considerations:

- Does the service already exist within other agencies?
- Does the project focus on a service that is currently a high priority public need?

# LRCPC's Evaluation Criteria

## F. Urgency of Maintenance Needs

- Describe how project will maintain or restore essential service.

### Considerations:

- Is the service currently interrupted or in imminent danger of being interrupted?
- Will project restore service?
- Is the project the most cost-effective way to restore or maintain service?



# LRCPC's Evaluation Criteria

## G. Prior Phases

- Describe any prior expenditures and completed phases for the project.

### Considerations:

- Has the project received prior funding?
- Does the project require additional funding in order to be fully operational?

# LRCPC's Evaluation Criteria

## H. Agency Mission and Strategic Goals

- Describe how the project advances the mission of the agency.

### Considerations:

- Does the project address a goal outlined in the agency strategic plan?
- What is the project's priority among other projects proposed by the agency?

# LRCPC's Evaluation Criteria

## I. Safety and Health

- Describe how the project addresses health-related environmental and safety impacts.

### Considerations:

- Addresses a health-related environmental or safety hazard
- Reduces risk to the public or to state employees

# SECTION 3: Examples of Other States



# Kansas

- Budgeting Process
  - Agency Specific & Decentralized
  - Agencies Submit Five-Year Capital Plans
  - Funded Mostly via Direct Appropriations
- Facility Maintenance
  - Decentralized

# Colorado

- **Budgeting & Planning: Mostly Centralized**
  - Agencies are required to develop:
    - Operational Master Plans
    - Facilities Master Plans
    - Facility Program Plans
    - Five-Year Plans
  - State Architect is required to review Operational plans and approve the others
- **Facility Maintenance: Mostly Decentralized**
  - Centralized Capitol Complex Facilities & Fleet Management

# Colorado

- Budgeting Process – Law Requires Plan Approval Prior to Funding

Excerpt from Colorado's capital budget request instructions & statutes:

**'The General Assembly (thru the Capital Development Committee per Joint Rule 45), by State law, shall require program and facility planning prior to capital construction.**

*2-3-1304.6 C.R.S.*

*It is declared to be the policy of the general assembly not to acquire a capital asset or authorize or initiate any program or activity requiring capital construction, except programs or activities for controlled maintenance or capital renewal, for any state agency or state institution of higher education unless the program or activity is an element of the facilities program plan for the agency or institution and such facilities program plan has been approved by the state architect as set forth in section 24-30-1311, C.R.S., or by the Colorado commission on higher education as set forth in section 23-1-106, C.R.S.'*



# State of Washington

- Budgeting Process
  - Mostly Centralized
  - Ten-Year Capital Plan
  - Operating, Capital, & Transportation Budgets
  - Constitutional Debt Limit of 8.25% of prior 6-yr average “general state revenues” (i.e. GRF)
- Facility Maintenance
  - Mostly Centralized – Facilities Oversight Program
  - Six-Year Facilities Plan
  - Life-Cycle Cost Analysis



# Utah

- **Budgeting Process**
  - Mostly Centralized – State Building Board (similar to LRCPC) & Division of Facilities Construction
  - Debt Limits: Article XIV, Section 1 of Utah State Constitution – General obligation indebtedness limited to 1.5% of the value of taxable property of the State.
  - Ongoing Funding: UCA 63A-5-104(7) – Legislature is statutorily required to appropriate “1.1% of the replacement cost of existing state facilities and infrastructure to capital improvements” prior any new construction/capital projects

# Utah

- Facility Maintenance
  - Mostly Centralized – Division of Facilities Construction & Management
    - “DFCM has jurisdiction over 3,785 buildings across the State. These include state agency buildings; all of higher ed which includes universities, community colleges, and technology colleges; and the Utah State Fair Park. These buildings have a combined estimated value of over 12 billion dollars”
  - Five-Year Building Plans
  - No known issues with deferred maintenance

**SECTION 4:  
Thoughts on State Building  
Maintenance**



# Challenges

- Resources
  - Programs vs Maintenance
  - Hiring & Retention
  - Raising Rates
- Governance
  - Decentralized Execution
  - Lack of Reporting & Oversight

# Challenges

- Programs vs Maintenance
  - Examples:
    - Office of the Chief Medical Examiner
    - Health Lab
    - OMES

# Opportunities

- Preventing Future Liabilities
  - Deferred Maintenance
- Potential Funding
  - State's Bonding Capacity
- Capital Planning & Credit Ratings

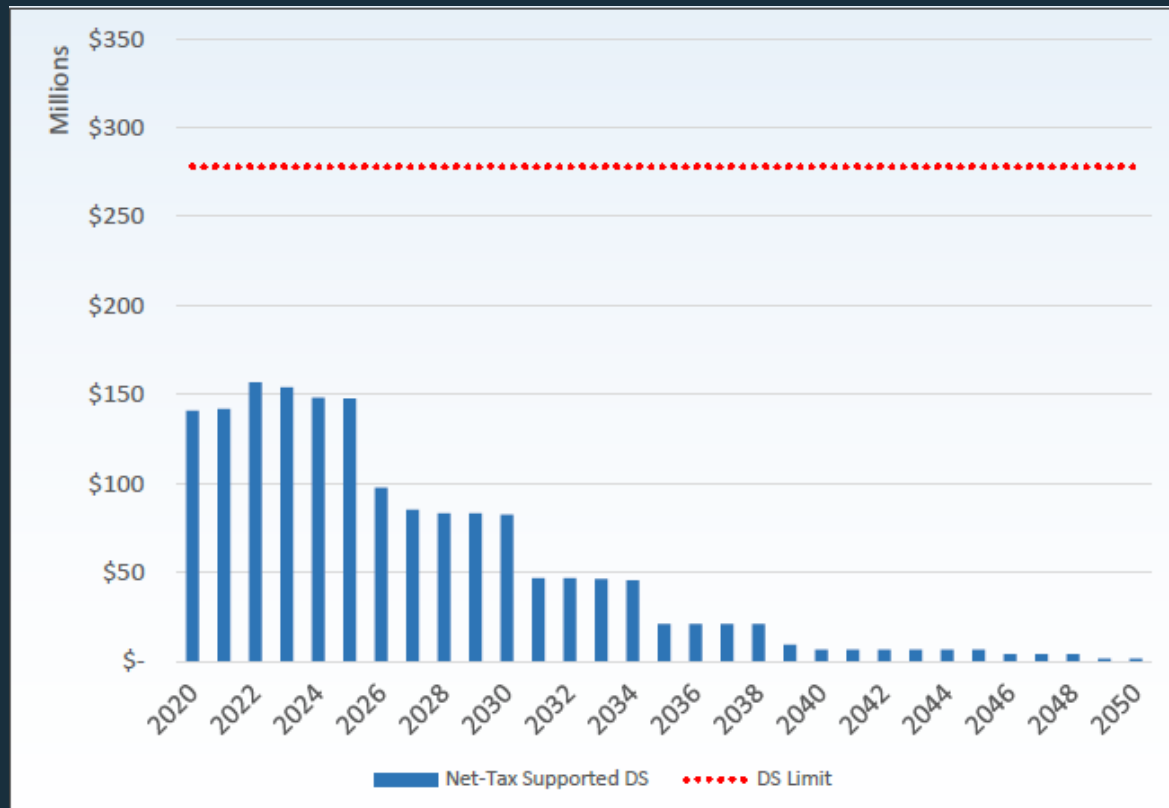
# Opportunities

- Potential Funding : State's Bonding Capacity
  - 62 O.S. § 34.200
    - Annual Debt Service payments shall not exceed 5% of the average general fund revenue for the preceding 5 years
    - Excludes Master Lease Program
    - If exceeded no additional debt may be issued unless an emergency is declared by 2/3's vote of the legislature
    - Debt Service Limit 2019 = \$274 Million



# Opportunities

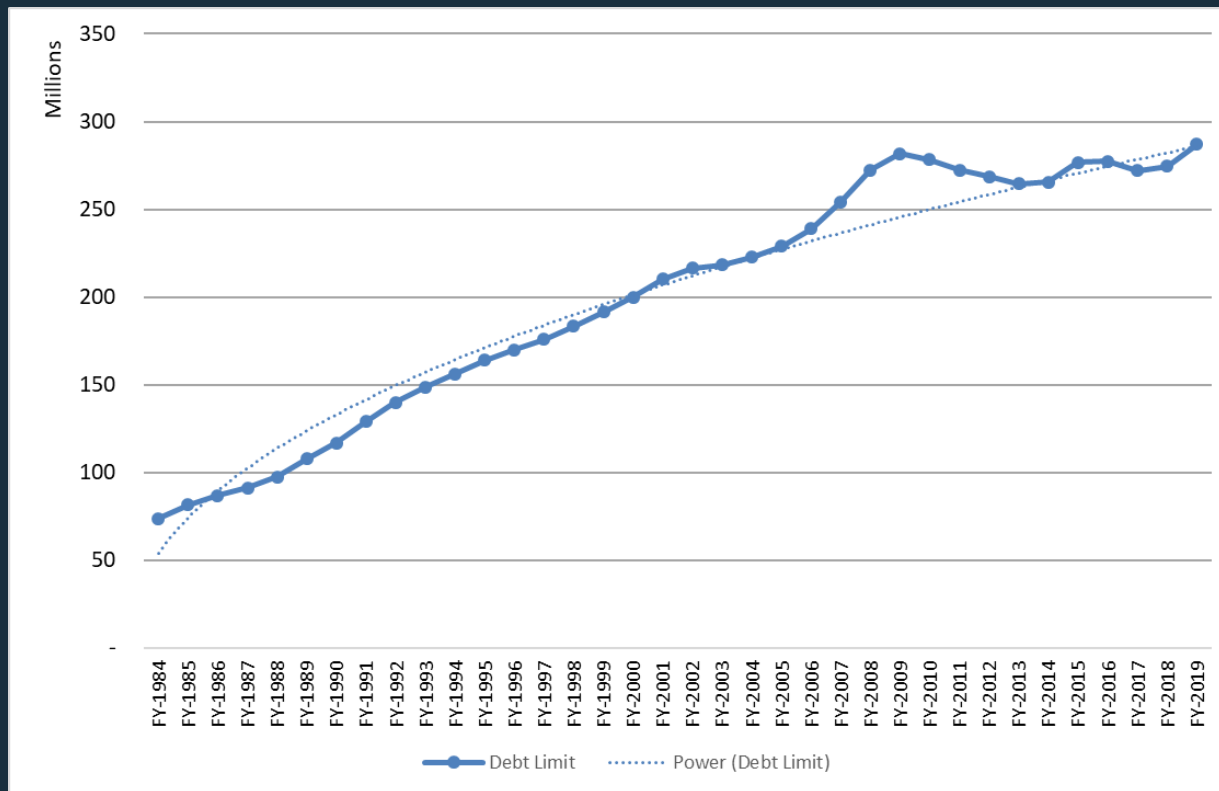
- Potential Funding : State's Bonding Capacity
  - Net Tax Supported Debt v. 5% Debt Limit





# Opportunities

- Potential Funding : State's Bonding Capacity
  - 5% Debt Limit Over Time



# Opportunities

- Capital Planning & Credit Ratings
  - Bond Buyer: 'D.C.'s innovative approach to capital planning'
    - Joseph Krist, a partner at Court Street Group Research and longtime analyst on both the buy and sell sides, said an issuer putting a high level of detail into its analysis of its infrastructure needs is useful to analysts who are taking an increasingly quantitative approach. But it also establishes credibility about the issuer's management skills, he said. "What's important about it is that it shows evidence that they are thinking about the issue," said Krist. "Thinking about this stuff is half of the problem."



# Opportunities

- Capital Planning & Credit Ratings
  - Cape Cod Chronicle: 'Harwich Joins AAA Credit Club: Upgraded Rating Will Mean Savings on Borrowing'
    - The report also commends a strong focus on capital planning, specifically the town's capital plan and the annual updates of the five-year budget forecast. It also noted the use of a formal debt management policy that limits general fund debt service to 10 to 12 percent of expenditures.

# Opportunities

- Credit Ratings & Impacts on Taxpayers
  - California – Office of the State Treasurer – Bond FAQs:
    - California’s credit rating has improved dramatically since the Great Recession. On August 12, 2016, Fitch Ratings upgraded California’s GO credit rating one notch to AA-, elevating the state to the “high grade” category. Moody’s and S&P have maintained their Aa3 and AA- ratings respectively.

	Moody’s	Standard & Poor’s	Fitch
Current	Aa3	AA-	AA-
2009	Baa1*	A**	BBB*

# Opportunities

- Credit Ratings & Impacts on Taxpayers
  - California – Office of the State Treasurer – Bond FAQs:

**COST TO CA COMPARED TO AAA-RATED ISSUER:**

**Then - \$201.6 Million • Now - \$12.2 Million**

**Savings = \$189.4 Million Per \$1 Billion Borrowed**



# Opportunities

- Credit Ratings & Debt Ratios

Oklahoma Net Tax-Supported Debt Comparative Ratios 2018						
State	Ratings (S&P/Moody's/ Fitch)	Debt Per Capita	Net Tax- Supported Debt as % of Personal Income	Debt as % of State GDP	Net Tax- Supported Debt (\$ thousands)	Debt Service Ratio (FY'17)
Arkansas	AA/Aa1/NR	\$639	1.6%	1.58%	\$1,920,111	3.5%
Colorado	AA/Aa1/NR	\$353	0.9%	0.84%	\$1,954,579	2.5%
Connecticut	AA-/A1/AA-	\$6,544	9.5%	9.03%	\$23,497,445	13.8%
Georgia	AAA/Aaa/AAA	\$986	2.4%	1.94%	\$10,287,595	6.4%
Indiana	AAA/Aaa/AAA	\$310	0.7%	0.57%	\$1,969,124	1.2%
Kansas	AA-/Aa2/NR	\$1,554	3.3%	3.01%	\$4,526,773	4.4%
Louisiana	AA-/Aa3/NR	\$1,627	3.8%	3.16%	\$7,621,350	4.9%
Missouri	AAA/Aaa/AAA	\$532	1.2%	1.09%	\$3,250,390	3.5%
Mississippi	AA/Aa2/AA	\$1,854	5.2%	5.10%	\$5,532,900	6.9%
New Mexico	AA+/Aa3/NR	\$1,139	3.0%	2.54%	\$2,378,230	5.0%
Oklahoma	AA/Aa2/AA	\$303	0.7%	0.66%	\$1,192,740	1.9%
Oregon	AA+/Aa1/AA+	\$2,017	4.5%	3.65%	\$8,354,427	5.2%
Texas	AAA/Aaa/AAA	\$410	0.9%	0.73%	\$10,681,942	2.7%
Utah	AAA/Aaa/AAA	\$772	1.9%	1.52%	\$2,513,135	5.3%
<b>National Median</b>		<b>\$987</b>	<b>2.3%</b>	<b>2.05%</b>	<b>\$4,450,975</b>	<b>4.2%</b>



# Contacts

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Questions?

