Capital Budget Process
What Is Capital?

• The capital budget funds the construction of buildings and infrastructure.

• To qualify as capital, a project must:
  – have a useful life equal to the life of the bonds sold to finance the project (typically 15 years); and
  – cost at least $100,000.
Examples of Capital Improvements

- Real property acquisition
- Architectural and engineering services
- Construction of new facilities or the renovation of an existing facility
- Site development and improvements
- Initial capital equipment
Categories of Capital Improvement

- **State-owned Capital Projects:** construction of State buildings and infrastructure, such as prisons, State hospitals, public university buildings, and State office buildings.

- **State Capital Programs:** State-administered programs that provide grants or loans to local governments and private organizations for the construction of capital projects that serve a public purpose and meet State policy objectives (e.g., public school construction, Chesapeake Bay restoration, local jails, community colleges, housing, health and social programs, and economic development).

- **Capital Grants:** grants for non-State-owned capital projects requested by local governments and private organizations.
Capital Project Stages

- Develop project/program plan.
- Identify site and make acquisition.
- Hire architect – preliminary planning occurs.
- Develop detailed plans.
- Commence construction.
- Procure equipment.
- Accept, staff, and place capital project into operation.

From start to finish, the process can take four or more years to complete.
How Are Capital Projects Funded?

- Capital is funded by (1) debt through the sale of bonds; and (2) current operating funds on a pay-as-you-go (PAYGO) basis.

- There are three categories of debt:
  - **General Obligation (GO) Bonds:** supported by the general taxing power of the State with the property tax pledged as the ultimate source of bond repayments;
  - **Transportation Bonds:** supported by specified taxes and fees dedicated to the Transportation Trust Fund; and
  - **Revenue Bonds:** supported by revenues generated by the specific project.
Capital Budget vs. Operating Budget

- **Multiple Bills:** Authorizations for the State’s capital program are contained in multiple bills.
  - Maryland Consolidated Capital Bond Loan bill (MCCBL or capital bond bill);
  - Operating budget (PAYGO); and
  - Separate local bond bills.
Capital Budget vs. Operating Budget (cont.)

- **Two-year Authorization:** Typically, the authority to spend a capital authorization for a project terminates within two years of the effective date if:

  - a required matching fund has not been presented to the Board of Public Works; or

  - no part of the project is under contract, and the board has not encumbered funds for any part of the project.

- The authorization period is extended to seven years if any portion of an authorization is encumbered.
Capital Budget vs. Operating Budget (cont.)

- **Delete and Add:** Unlike the operating budget, the General Assembly may add as well as delete projects from the capital bond program.

- **Session Can End Without a Capital Bill:** There is no constitutional requirement to pass a capital budget, and the capital bill cannot be finally acted upon until the operating budget has been passed.

- **Signed by Governor/Line-Item Veto:** The capital budget bill must be signed by the Governor, and the Governor has line-item veto power.
Capital Budget vs. Operating Budget (cont.)

• **Moving the Bill:** Unlike the operating budget, each house may move its own capital budget bill.

• **Effective Date:** The capital bill is effective June 1 while the operating budget is effective July 1.
Bill cannot be passed until after the operating budget has been approved by General Assembly.

General Assembly committee hearings, budget passed.

Governor submits budget to GA no later than 20 days after session starts.

DBM recommendations submitted to Governor.

DBM reviews projects and prepares five-year CIP with assistance of DGS.

CDAC report released, agencies submit requests for grant and loan programs.

DBM invites submission of budget requests.

Site visits of selected facilities/projects by DBM, budget committees, DLS, and other interested parties.

Departments submit proposed State projects by July 1.

DBM departmental meetings in cooperation with DGS – DLS staff attend.

Governor may line-item veto parts or all of the bill.

CDAC: Capital Debt Affordability Committee
CIP: Capital Improvement Program
DBM: Department of Budget and Management
DGS: Department of General Services
DLS: Department of Legislative Services
GA: General Assembly

Source: Department of Legislative Services
Pre-session Formulation of the Capital Budget

• Agencies submit capital requests to the Department of Budget and Management (DBM) no later than July 1 for State-owned projects and August 15 for grant and loan program requests.

• DBM meets with agencies in July and September to review requests. Department of Legislative Services (DLS) staff also attend meetings to become familiar with projects.

• The Capital Debt Affordability Committee (CDAC) analyzes the State’s debt status and makes recommendations to the Governor and the General Assembly as to the maximum amount of new GO debt that should be authorized during the upcoming legislative session.
• After considering CDAC’s recommendations (due September 10), the Governor prepares a preliminary allocation of the amount of debt for State-owned projects, public school construction, and other grant and loan programs.

• These preliminary allocations are non-binding and may be modified by the Governor as new information and priorities change.
In the fall, DLS presents an independent analysis of debt affordability to the Spending Affordability Committee – *The Effect of Long-term Debt on the Financial Condition of the State*. The report includes:

- a recommendation on the amount of new debt authorization for the forthcoming session of the legislature; and

- a response to the recommendations of CDAC.
Pre-session Formulation of the Capital Budget (cont.)

• After reviewing the DLS report, the Spending Affordability Committee recommends an appropriate level of new GO debt authorization for the coming year.

• By the end of November, DBM has refined its analysis of the State’s capital needs and makes recommendations to the Governor. The recommendations include a draft of the Five-year Capital Improvement Plan (CIP).
Pre-session Formulation of the Capital Budget for Public Schools and Higher Education

• The public school construction program is simultaneously developed by the Interagency Committee on Public School Construction, generally working within the preliminary allocation set by the Governor in October.

• Higher educational institutions may begin to draft legislation, which will increase higher education's debt ceiling and authorize academic facilities to be funded by tuition bonds.
Enacting the Capital Budget

• The capital budget bill is introduced by the presiding officer of each house as an Administration bill by the twentieth day of session.

• Projects and programs contained in the capital budget bill are analyzed by DLS and considered by the budget committees similar to that of the operating budget.
  
  – Capital programs and projects funded with PAYGO are taken up at the same time the operating budget is considered.

  – The Capital Subcommittee of the Senate Budget and Taxation Committee and Capital Ssubcommittees of the House Committee on Appropriations make recommendations to the full committees.
Enacting the Capital Budget (cont.)

• Both the House and Senate bring the capital budget bill to the floor in a manner similar to that of the operating budget (*i.e.*, a reprint of the bill incorporating committee amendments and a report explaining each amendment).

• Amendments created by the second house action in the first house third reader bill provide the basis upon which an appointed conference committee finalizes the budget for final passage in each chamber.
Post Session Execution of the Capital Budget – Managing Agencies

- The Department of General Services manages the execution of most capital projects.

- The University System of Maryland, Maryland Environmental Service, Morgan State University, and the Department of Public Safety and Correctional Services have autonomy to manage their own projects.
Post Session Capital Budget
Project Stages

• Site acquisition is made.

• Architect is hired and preliminary planning occurs.

• Detailed architectural/engineering plans are developed.

• Construction commences.

• Equipment is procured.

• Capital project is accepted, staffed, and placed into operation.