

Chapter 2

The Capital Project Request

2.1 WHAT IS A CAPITAL PROJECT?

A capital project is a project to construct either new facilities or make significant, long-term renewal improvements to existing facilities. A capital project using general obligation bonds usually has a useful life of at least 13 years and typically requires the involvement of an architect and/or engineer. Grants made by the state to fund capital projects for other entities are also included in the capital budget.

Capital projects are usually funded by sources specifically set aside for capital purposes, such as proceeds of bond sales, long-term financing contracts, and other dedicated revenues.

Ordinary maintenance costs should be included in the operating budget

Costs for ordinary repair and routine maintenance work necessary to keep a facility or asset in useful condition for its function and occupants are included in the operating budget and not the capital budget. This type of work maintains or preserves the usefulness of an asset rather than changes or significantly improves it. There is usually little or no effect on the operating costs of the facility at the completion of the work. Usually, minor repairs or maintenance work can be done by agency trades staff or by private contractors, and there is generally no need for the involvement of an architect or engineer.

2.2 CLASSIFICATIONS OF CAPITAL PROJECTS

Capital projects are classified as either preservation, programmatic or grants. These classes aid decision-makers in project review and prioritization. This section describes each of these categories.

- **Preservation projects.** Preservation projects maintain, preserve and extend the life of existing state facilities and assets and do not significantly change the program use of a facility. Preservation projects generally have little effect on future operating programs and budgets, except for reductions in the agency's maintenance costs and the deferred maintenance backlog (Chapter 3.1). Examples include renovating building systems and finishes, upgrading utility systems, and repairing streets and parking lots.
- **Programmatic projects.** These projects primarily achieve a programmatic goal, such as changing or improving an existing space to meet new program requirements or creating a new facility or asset through construction, lease, and/or purchase. This category is less concerned with life extension of a facility, and 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. These projects must be tied to the statewide results and the agency's strategic plan by identifying the goals, strategies and activities supported by the project.

- **Grant projects.** Grant projects provide capital appropriations to state, tribal, local or community organizations for facilities or land. In general, grant programs are either established in statute or have specific legislative provisions associated with the distribution of the appropriated funds.

Agencies that have statutory grant programs should submit ten-year capital budget requests within the limits established by statute. Agencies whose grant programs have no specified appropriation limits should submit two-year (biennial) appropriation requests based on their historical biennial expenditure history for the grants. Grant projects should be linked to the agency's strategic plan and to the statewide goals, objectives, and outcomes through the agency's activities.

Competitive Grant and Loan Programs

If a draft or final project list is available, competitive grant or loan program requests in paper copies and in CBS submittal must include a list of projects with an agency summary and a project summary for each project, noting the city, legislative district, and latitude/longitude for each project address. If a competitive grant or loan funding request is for the biennium, the estimated grant or loan funding request for the second fiscal year must be entered as "Competitive Project," with "Statewide" for location. The project summary should consist of a short description of what the particular project will accomplish. **DO NOT WRITE "See parent"** for the agency summary and project summary.



If a draft or final project list is developed after the release of the Governor's budget, agencies are required to update and resubmit the project funding request in CBS to include a list of projects with a project summary for each project, noting the city, legislative district and latitude/longitude for each project address. The project summary should consist of a short description of what the particular project will accomplish. **DO NOT WRITE "See parent"** for the agency summary and the project summary.

An updated project list may be requested by OFM or legislative staff during the legislative session or at any time the need requires. A reasonable list of alternate projects for each program is allowed. This requirement applies to new appropriation requests only.

2.3 NARRATIVE JUSTIFICATION REQUIRED FOR EACH PROJECT

Narrative justification is required for each project

Narrative for each project included in the budget is required to explain and justify the request. This information will appear on the Capital Project Request (CBS002) required for each project. Answers to the following questions are necessary to evaluate the project:

- What is the proposed project? Briefly describe the nature of the project and what will be constructed.
- What problem or business opportunity is being addressed?
- What kind of change in results or performance can be expected if this proposal is implemented?
- Why is this project necessary?

In addition, information is required for the following items or questions:

- **Preservation projects:** Describe whether this project reduces needs on the agency's deferred maintenance backlog.
- **Grant projects:** Include statutory requirements and limitations for the grant program.
- **Effects of non-funding:** Describe the consequences to stakeholders and client groups of not funding the requested project.
- **How does the project support agency and statewide results?** Briefly describe how this project does one or more of the following: (1) supports the agency's strategic plan and master plan. (2)

contributes to a statewide goal area, or (3) enables the agency to do a better job with one or more of its activities.

▪ **Specific benefits of this project:**

- ◆ What will this investment buy? For example, does this project increase capacity to accommodate anticipated changes in caseloads or enrollments?
- ◆ Will this project reduce the deferred maintenance backlog?
- ◆ Within the Facilities Inventory System (FIS), does this project change the condition of a “needs improvement” facility to “adequate” or “superior?”
- ◆ What economic impact does the project have?
- ◆ Does this extend the life of the facility or enhance health and safety?

▪ **The impact of the change on agency clients and services:**

- ◆ How will clients be affected and services change if this project is funded?
- ◆ What levels of service are provided today and at what cost and staffing level?
- ◆ How will existing services be altered by the project?
- ◆ Are additional FTEs involved for either operating or capital? If so, how many?

▪ **The impact on other state programs or other units of government:**

- ◆ How will other state programs or units of government be affected if this project is funded?
- ◆ Describe how the project impacts other agency programs, agencies, or another unit of local or federal government.

▪ **The relationship, if any, to the state operating budget:**

- ◆ What is the impact on the state operating budget?
- ◆ If the project adds, reduces or alters space for the agency, describe any changes in maintenance and operating requirements.

▪ **Preservation projects:** How much has the agency spent from its maintenance funds in the operating budget over the life of this asset? If none, why was the asset not maintained?

▪ **Discussion of alternatives explored by the agency:**

- ◆ Why is this project the best option or alternative? Include the pros and cons of the alternatives, why they were not selected, and why the recommended alternative was chosen. Include known risks of the options considered, such as lease, lease purchase or build.
- ◆ How does this cost estimate compare to projects of a similar nature?

▪ **Program projects more than \$5 million (\$10 for higher education projects):** Has the predesign or design been completed? If so, what new information did this work reveal?

▪ **Discuss the proposed funding options for this project:**

- ◆ What is the agency’s proposed funding strategy for the project?
- ◆ What is the proposed funding option for this project (long-term financing, alternative financing or cash)?
- ◆ Are these dedicated fund sources?
- ◆ Are matching funds available (federal or local)?
- ◆ Are there conditions related to these matching funds that may influence the decision?

2.4 CAPITAL PROJECT REQUEST REPORT REQUIRED FOR EACH PROJECT

Capital Project Request (CBS002) Report

A Capital Project Request Report must be completed for each project. In addition to the required components in Chapter 2.3, the report should include the following:

- **Project identification**
 - ◆ Agency
 - ◆ Project title
 - ◆ Project number
- **Project description**
 - ◆ Project class (program, preservation or grant)
 - ◆ Type of project (e.g., new facility, remodel, etc.)
 - ◆ Agency priority
 - ◆ City and county
 - ◆ Legislative district
 - ◆ Project latitude and longitude
 - ◆ Project published summary (summarized project description)
 - ◆ Project description and non-minor works subproject description (in response to questions identified in Chapter 2.3)

If these project classes apply, supply information specified below:

- **Grants**
 - ◆ Is there a process and established criteria for evaluating projects? If so, please describe.
 - ◆ If applicable, provide a list of projects noting the city, county, and legislative district.
 - ◆ If applicable, provide the project latitude and longitude.
 - ◆ What are the growth management impacts, if any?
- **Preservation**
 - ◆ Where is this located?
 - ◆ What are the growth management impacts, if any?
- **Programmatic**
 - ◆ If this is a new facility, how does this fit into the agency's master plan?
 - ◆ If this is tied to a decision package in the operating budget, what are the assumptions for needing this project?
 - ◆ What are the growth management impacts, if any?

If these elements apply to your project, supply information specified below in the CBS:

- **Operating impacts** – List one-time and ongoing FTEs and costs and the year in which they will impact the operating budget. Identify affected funds and estimated current and future (two to three biennia) amounts needed in the operating budget.
- **Project funding by biennium** – Funds and amounts expended to date and needed in the future by biennium (prior biennium, current biennium, reappropriations and new appropriations).
- **Project statistics** – For buildings, gross square feet, usable square feet, and escalated maximum allowable construction cost (MACC) per square foot.
- **Project schedule** – Start and end dates of the predesign, design and construction phases.
- **Cost summary** – Costs for consultant services, construction and other expenses necessary to complete the project.

2.5 PRESERVATION AND PROGRAM PROJECTS

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 certificates of participation (Chapter 4.3) to help determine whether IRS regulations will require taxable financing rather than tax-exempt financing. This form can be found at: <http://www.ofm.wa.gov/budget/capitalforms/expecteduse.doc>.

Bond fund and cash flow estimates

The Office of Financial Management asks for periodic updates to allotment expenditure patterns for projects funded by bonds. Typically these adjustments will be required on a quarterly basis. These adjustments should reflect actual spending plan changes where there is a significant variance between the previous expenditure pattern and actual cash disbursements. For projects behind their original schedule, the revised expenditure pattern should indicate an anticipated reappropriation rather than just consolidating the remaining expenditures in future fiscal months of the biennium, unless a project acceleration plan has been developed. Consolidating the remaining expenditures in future fiscal months for delayed projects artificially inflates the anticipated need for future bond sales and is counterproductive to the update effort. For projects with delayed spending patterns, the pattern should simply be shifted to reflect the delay.

The OST also asks selected agencies to provide information about bond fund cash flow estimates and descriptions of the expected use of bond proceeds. This information, along with OFM allotment updates, is used by OST to prepare sales plans for state bond sales. Sales plans are also used to calculate the bond retirement principal and interest expenses included in the operating budget. Information provided by agencies for this purpose will not be used to calculate re-appropriation amounts (Chapter 2.10).

The OST will contact agencies listed below to obtain information on debt service to complete its own budget request. If you are contacted, please reply to OST by **August 12, 2014**, to:

Wendy Weeks, Office of the State Treasurer
P.O. Box 40200
Olympia, WA 98504-0200
Phone: 360-902-9020
Fax: 360-902-9045
wendy.weeks@tre.wa.gov

Agency	Fund Code	Fund Title
Department of Commerce	355	State Taxable Building Construction Account
Department of Ecology	051	State and Local Improvements Revolving Account (Waste Disposal Facilities)
	055	State and Local Improvements Revolving Account (Waste Disposal Facilities, 1980)
	072	State and Local Improvements Revolving Account (Water Supply Facilities)
	10P	Columbia River Basin Water Supply Development Account
	18B	Columbia River Basin Taxable Bond Water Supply Development Account
Department of Transportation	099	Puget Sound Capital Construction Account
	108	Motor Vehicle Account
	215	Special Category C Account
	218	Multimodal Transportation Account
	511	Tacoma Narrows Toll Bridge Account
	550	Transportation 2003 Account/Nickel Account
	16J	SR 520 Corridor
Recreation and Conservation Office	070	Outdoor Recreation Account
	09C	Farmland Preservation Account
	09G	Riparian Protection Account
	10T	Hood Canal Aquatic Rehabilitation Bond
	244	Habitat Conservation Account
Transportation Improvement Board	112	Urban Arterial Trust Account
	144	Transportation Improvement Account

2.6 MAJOR CAPITAL PRESERVATION OR PROGRAM PROJECTS

What is a major capital project?

Major capital projects have one or more of the following features:

- Cost more than \$5 million (regardless of fund sources).
- Take two or three biennia to design, construct and occupy.
- Are privately-owned buildings under development.

More about alternative finance projects

Projects involving contractual arrangements for space or facilities that provide for the title of the property to transfer to the state by the end of the term are considered alternative financed projects. They include:

- Construction or renovation projects that are financed by certificates of participation (COPs). (See Chapter 4 for more information about COPs.)
- Development or use of space by state agencies through a contractual arrangement with a developer or financing entity where the sale of debt obligations or COPs through the OST may be involved or financing may be offered by a private developer. Title to the property involved may transfer to the state for a nominal amount or for a price determined without reference to fair market value. Examples include conditional sales contracts, financing leases, lease purchase contracts or refinancing contracts, but do not include operating or true leases.

Projects funded by alternative financing mechanisms are identified in the ten-year capital plan because they represent long-term occupancy proposals and result in long-term costs. Lease or debt service costs may be requested as part of an agency's operating budget during the biennium in which they occur.

Major projects are requested and implemented in three phases

Three major phases are associated with completion of major capital projects of more than \$5 million:

- **Predesign.** The predesign phase is defined as the first phase of a major capital project of more than \$5 million (\$10 million for higher education projects) and provides a clear definition of the project plan. Predesign work may be required for projects that have significant policy implications or may have technical, logistical or cost concerns to a program or agency.

OFM has identified several types of acceptable predesign formats, depending on the cost and scope of the capital project. Each predesign report type varies by depth and focus of content. Agencies should confirm the correct format with OFM prior to the predesign effort. (See OFM Predesign Manual at: <http://www.ofm.wa.gov/budget/instructions/predesign/predesign.asp>.)

- **Design.** The design process incorporates all prior predesign or information from the administering agency into written and graphic documents. These documents form the basis for taking bids and constructing the 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
- ♦ 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. The 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 to final acceptance of the construction project. 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.

Capital project cost estimate is required for all major projects


All major projects must include a Capital Project Cost Estimate (CBS003). This report is prepared in CBS and submitted to OFM electronically and in hard copy with the agency capital request.



A new C-100 (2014) is also available for cost estimating work done outside of CBS. This Excel form aligns with the estimating functions in CBS, but does not supersede the requirement for submittal of report CBS002 with all capital project requests.

The new C-100 (2014) can be found at <http://www.ofm.wa.gov/budget/forms.asp>.

Life Cycle Cost Analysis (LCCA) is required for all major projects

All major capital construction projects must include a Life Cycle Cost Analysis using the new Life Cycle Cost Tool (LCCT) developed by OFM. This tool will be used to generate the required analysis for projects greater than \$5 million or construction of buildings with an area of 5,000 square feet or greater. Unless specifically requested by OFM, this requirement will only affect projects that begin pre-design or design phase in the 2015-17 biennium. 

The LCCT formally considers the cost to build, own, and operate the building or system. The primary features are:

- Standard format to simplify review of modeled alternatives.
- Standard rates and methodologies based on Washington State guidelines and established LCCA processes.
- Variable levels of detail and study life (detail levels align with Unifomat II cost estimating format).
- Cost comparison model that evaluates project or system options based on standard parameters.
- Automatically produces an executive report for efficient review of project alternatives.

LCCA Submittal Requirements:

- Pre-design submittals will include an analysis using the LCCT at a detail level as established in consultation with the agency and OFM. Typically, the analysis will align with the detail level of the cost estimate as it is submitted in the pre-design.
- Design phase will include a more detailed analysis submitted to OFM prior to receiving the construction allotment.
- After construction, a level 4 analysis will be submitted to OFM with the Final Project Close-out report.

Capital Project Request Report is required for stand-alone projects

A Capital Project Request (CBS 002) Report is required for the following major projects and must be submitted prior to budget submittal:

- Program and preservation projects exceeding \$1 million (\$2 million for higher education)

The Capital Project Request Report must include the following information:

- Overall summary of the project
- Scope and project description
- Justification for the project
- Proposed schedule for the project
- Implementation plan
- Site plans
- Cost estimate

Predesign study required if requesting design funding for a major project

A predesign study is required for all major projects exceeding \$5 million (\$10 million for higher education projects) for which design and construction funds are requested. Refer to the Predesign Manual at <http://www.ofm.wa.gov/budget/instructions/predesign/predesign.asp> for complete information on what is required in the predesign document. Predesign studies must be submitted to OFM by July 1, 2014.

In the budget submittal, agencies should also include:

- The previously submitted Capital Project Request report, updated as needed to reflect agency, OFM and legislative staff review.
- A description of significant changes in the design elements from those outlined in the predesign document.

For program projects exceeding \$1 million (and higher education program projects exceeding \$2 million), a simplified predesign study may be required, and if so, must be submitted to OFM by July 1, 2014. Agencies, in consultation with OFM, should determine which sections of the predesign apply and complete those sections only.

Comprehensive financing plan required for alternative financed projects

A Comprehensive Financing Plan documents the flow of revenues and expenditures, and demonstrates that sufficient fund balance exists in the dedicated accounts used for payment of debt service. Include all fund sources and discuss the funding for operating costs for new or remodeled structures. For example, show how parking fee revenue is received and spent on project expenses.

Decision packages must be included in operating budget request for certain items

Agencies may submit decision packages in the operating budget request for certain operating and debt service costs. Operating budget decision packages are required for:

- Operating costs associated with alternative financed projects for new leases for more than 20,000 new gross square feet. The decision package justification should reference feasibility studies, master plans, space programming and other analyses as appropriate.
- If construction of a major project will be completed and operational during the 2015-17 biennium, the agency must also submit a decision package in the operating budget request that reflects the operating budget impacts during that biennium. This decision package code also should be included in the Capital Project Request report.

2.7 MINOR WORKS PROJECTS

Consolidate smaller projects

Consolidation and management of small and related capital projects are more efficient under one larger capital appropriation. This is an effective capital budget strategy (especially for preservation projects). Whenever possible, minor works project requests should incorporate all small improvements, renovations and upgrades necessary at a facility for the foreseeable future.

Submit new minor works appropriation requests under the subcategories of Preservation or Program only. Other subcategories for minor works such as Infrastructure or Health, Code and Safety should only be used for justified re-appropriation requests (i.e., as originally appropriated).

Projects affecting policy or are of particular interest must be requested individually and should not be consolidated.

Definition of minor works

- Single-line appropriations that include multiple projects valued between \$25,000 and \$1 million each. (For higher education institutions, the range is \$25,000 and \$2 million.)
- Similar in nature.
- Projects that will be completed within the biennium.

Improvements for accessibility in compliance with the federal Americans with Disabilities Act may be included in any of the above minor works projects.

Do not propose the following items as minor works projects

- Work on a phase of a larger project
- Work that, if combined over a continuous period of time, would exceed \$1 million (\$2 million for higher education institutions)
- Supplemental funding for projects with funding shortfalls
- Studies (except for technical or engineering reviews or designs that lead directly to and support a project on the same minor works list)
- Planning activities
- Moving expenses
- Land or facility acquisition
- Design outside the scope of work on a minor works list
- Moveable, temporary and traditionally funded operating equipment not in compliance with Chapter 4.2
- Software not dedicated to control of a specialized system.

Submittal requirements for minor works projects

All minor works projects must be included as a subproject on the Capital Project Request report (CBS002). A Capital Project Cost Estimate report (CBS003) can be included if enough details are known.

2.8 LAND ACQUISITIONS

Stand-alone land acquisition requests **must** be submitted with the following:

- **Acquisition, preparation and site improvement costs.** Property acquisition costs included in the Capital Project Cost Estimate (CBS003) should include the cost of purchasing sites or facilities and all attendant costs necessary to prepare the property for agency use. The costs of site improvements, right-of-way or conditions of the purchase must be included in the acquisition costs if such items are required to use the property for its intended purpose.
- **Identification and description of long-term operating costs associated with the acquisition.** Description in the narrative section must be provided about the future plan for the site if it includes construction of new facilities at a later date to meet the agency's program needs. Identify when the facility will be proposed for construction and estimated future operating costs after the facility is built.
- The result of the agency analysis that ensures the land and/or facility proposed for acquisition will meet agency and program needs, including support of statewide results and activities. Be sure to identify its specific use.
- The result of an environmental review and engineering inspection of the property that ensures its suitability in terms of condition and location. (This does not pertain to habitat acquisitions.) The

engineering inspection report includes the cost to bring the facility up to current code to allow for proposed occupancy.

- The proposal for financing improvements to be included in the narrative section of CBS and included in the Capital Project Request (CBS002).

Habitat and recreation land acquisitions

[RCW 43.88.030](#) (5)(p) requires agencies proposing the acquisition of land or capital improvement of land for which the primary purpose is recreation or wildlife habitat conservation to identify the projected costs of operation and maintenance for at least the two biennia succeeding the next biennium including the source of funds from which these costs are proposed to be funded.

If an agency is requesting a recreation or wildlife habitat land acquisition to be funded through its budget, it must fully complete the operations and maintenance impact question in the Capital Project Request (CBS002) including the detailed fund source and biennium breakout. Multiple acquisitions within one request must be submitted at the subproject level including operation and maintenance information. If a minor works project lists includes habitat and recreation land acquisitions, individual project cost estimates for operation and maintenance must be submitted through CBS.

An agency requesting funding for a recreation or wildlife habitat land acquisition through the Recreation and Conservation Office (RCO) will submit their estimates of the operation and maintenance costs to RCO. RCO anticipates sending instruction for collecting this information to agencies in July, 2014.

Please direct any questions on reporting this information, to your assigned OFM operating budget analyst.

2.9 REAPPROPRIATIONS ALLOWED FOR SOME PROJECTS

What are reappropriations?

Many capital projects and acquisitions require more than one biennium to complete, yet the State Constitution allows appropriation for only one budget period or biennium at a time. Consequently, some project funding must be carried forward to the next biennium. Agencies must request that the anticipated unexpended balance of an appropriation at the end of the biennium still necessary to complete the project be “re-appropriated” as a specific action in subsequent biennia capital budget submittals.

Restrictions on the use of reappropriations for capital projects

- Minor works projects are considered small and should be completed in the biennium in which they are first requested. To be reappropriated, minor works projects will need individual justification as to why they could not be completed in two years.
- Preservation projects first appropriated in the 2011-13 biennium and earlier may not be re-appropriated in the 2015-17 biennium.
- Grants and program projects older than the 2011-13 biennium may be reappropriated in the 2015-17 biennium on a case-by-case basis. Reappropriations are not automatic. Agencies should be able to demonstrate that funds are needed to complete planned work in 2015-17.
- Unobligated emergency funds will not be reappropriated.

Agencies should contact their assigned [capital budget analyst](#) for guidance.

Information requirements for projects proposed with reappropriated funds

Requests to reappropriate funds:

- Must follow these guidelines:
 - ♦ retain the same project number.
 - ♦ retain the same description.
 - ♦ include actual expenditures for prior biennia.
 - ♦ provide estimated expenditures for the current biennium (including first year actuals and second year allotments).
- Include the expected unexpended balance of the current biennium **needed to complete the project as the reappropriation amount**. Any remaining unexpended balance will not be reappropriated. If additional funds are needed to complete the project beyond the unexpended balance, the agency should request a new appropriation using the same project number.
- Should not exceed the expenditure authority amount minus actuals-to-date.

The above information is entered in CBS and will print on the Capital Project Request report (CBS002).

OFM and the Legislature may request periodic updates of actual expenditures as budgets are being developed. Reappropriation amounts will be updated in November 2015 after actual expenditures have been finalized for the 2013-15 biennium.