

# Capital 101

A guide for students, faculty, and staff of the Evergreen State College interested in the state capital budget. This overview will provide information about what is considered a capital project, how the capital budget is developed, and how the capital budget is funded.



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### **What are Capital Projects?**

Capital projects are broadly defined for the purpose of a capital budget as construction, major renovation, land, and major equipment above a minimum threshold. In addition, capital may include preventative maintenance, small repairs and improvements, infrastructure preservation, facility preservation, and safety and code compliance.

### **What is the Capital Budget?**

A capital budget is a spending blueprint that identifies capital projects that generate assets with a long economic life, such as roads and bridges, transit facilities, schools, economic development projects, environmental infrastructure, energy programs and state facilities.

The Capital Budget is one of three budgets for the state of Washington. The other two budgets include operating and transportation.

### **How is the Washington Capital Budget Developed?**

The Office of Financial Management (OFM) issues instructions for capital budget requests to all state agencies, including higher education, in the spring of the year preceding the submission to the Legislature. Submissions to OFM are due in September. The submissions are then incorporated into the Governor's proposed capital budget to the Legislature which is released in December and introduced in January as a bill.

The Washington Legislature takes action on the bill through its committee structure. In the Senate it is the Ways & Means Committee and in the House it is the Capital Budget Committee. Each committee will hold hearings and work sessions on the capital budget. In early spring both the Senate and the House will release their proposed capital budgets.

The budgets receive additional feedback through work sessions and public hearings. The capital budget writers from the Senate and House meet to create a single capital budget bill. The bill is then passed out of the respective committees and voted on by both chambers prior to being sent to the Governor's desk for her signature or veto.

### **How Does the State's Capital Budget Process Link with Evergreen?**

Each year The Evergreen State College submits a 10-year capital plan to the Office of Financial Management. The plan is the College's official capital forecast for the next ten years and includes major capital projects, minor works projects (i.e. facility preservation, infrastructure preservation, life, safety, and code compliance) and small repair and improvement projects.

The ten year plan identifies the resources necessary to ensure that the College is able to preserve and restore not only the buildings and building systems but the various major infrastructure systems (i.e. roads, roofs, electrical, water, trails).

The College's Campus Master Plan and Strategic Plan form the basis for Evergreen's biennial capital budget and the ten year plan.

### **How are Evergreen’s Capital Projects Determined in the Governor’s Budget?**

The College submits the institution’s ten-year plan, which includes the capital request for the immediate biennium, to the Office of Financial Management. OFM has the responsibility to evaluate all capital projects above \$2 million through a capital projects evaluation process. The projects are scored in several categories (i.e. predesign, infrastructure, acquisition, and design/construction in areas of growth, renovation, replacement, and research).

Once the projects have been evaluated in their respective category, OFM places the projects from all public baccalaureate institutions into a single prioritized list. OFM is required by law to provide a comprehensive single prioritized list for all four-year, public institutions based on the following criteria in order of importance: preserving assets; degree production; maximizing efficient use of instructional space; and reasonableness of cost. This list includes construction-ready projects and projects that were scored but not funded in previous biennia. Both the categorical ranking and single prioritized list are used to inform the Governor’s capital budget policy recommendations and are also required to be provided to the Legislature.

### **How is the Washington Capital Budget Funded?**

The Capital Budget is supported by several funding streams. Funding for capital includes general obligation bonds, dedicated accounts, trust revenue, and federal funding sources. Washington’s capital budget is primarily funded through the issues of state general obligation bonds.

One of the dedicated accounts is the Evergreen State College capital projects account. Approximately 5% of tuition revenue funds this account. In the current biennium, 46% of our capital projects program is funded from this account. If our enrollment falls below our projections that are made at the time we submit the capital budget request, our capital funds from this account decrease accordingly.

Washington is authorized to issue, sell and provide for the retirement of general obligation bonds that pay for the Capital Budget. The total amount of bonds the state may issue for a given purpose are limited by legislatively determined maximums.

Most projects in the Capital Budget require three pieces of legislation to fund: (1) The capital budget, (2) Bond authorization legislation, and (3) the operating budget to pay for the debt service associated with the bonds.

### **What are General Obligation Bonds?**

Washington issues general obligation bonds to finance projects authorized in the state capital budget. General obligation bonds pledge the full faith and credit and taxing power of the state towards payment of debt service.

General obligation bonds consist of dollars borrowed from investors. The funds borrowed are referred to as bonds.

### **How is the Size of the Capital Budget Determined?**

The size of the capital budget is determined by the available bond capacity and by funds available from other sources of funding (i.e. dedicated accounts, trust revenue, and other funding sources). Bond capacity has a direct correlation to State revenue.

## **How Does Washington Determine Debt Capacity?**

A model is administered by the State Treasurer's Office to calculate the available bond capacity or debt limit for the current budgeting period and for future biennia planning purposes. The model calculates the actual debt service on outstanding bonds and estimates future debt service based on certain assumptions, such as revenue growth, interest rates, rate of bond factors, and other factors.

The two primary considerations regarding bond capacity for any given year/biennium are:

- Maintaining the debt service, including the new bonds, below the debt limit in the future
- Maintaining a consistent bond capacity over time so that all the capacity is not used in one biennium.

## **How is the State Bond Debt Limit Determined?**

Debt limit bonds are limited by the state constitution. The Washington State Treasurer cannot issue any bonds that would cause the debt service (principal and interest payments) on any new plus existing bonds to exceed 8.5% of the average of the prior three years' general state revenue. General state revenues are about 85% of the State General Fund. In 2012 Washington voters passed a constitutional amendment that requires the state to reduce the constitutional debt limit to 8 percent by July 1, 2034. If Washington exceeds the debt limit the State Treasurer would not issue bonds in violation of the debt limit. As a result, it is likely that the balance in the state building construction account would decline. In addition, it is possible that this would cause projects authorized but not contracted for to be placed on hold.

## **What is the State's Bond Rating?**

There are three primary bond rating companies: Moody's, Standard & Poor's, and Fitch. In addition to rating government bonds, these companies provide a wide range of credit services related to the financial markets throughout the world.

The state bond rating is an independent assessment of the creditworthiness of an entity, a bond, or any similar borrowing instrument. It measures the probability of the timely repayment of principal and interest of a debt obligation by the issuer. The bond rating includes the interest rate investors demand for buying state bonds.

Long-term credit rating symbols are generally assigned with "triple A" as the highest and "triple B" (or Baa) as the lowest in investment grade. Currently, Washington's bond rating is AA+.

It is important to note that if the state exceeded the debt limit bond holders would not be at risk. In addition, debt service payments on existing bonds would continue.