State Notes

TOPICS OF LEGISLATIVE INTEREST

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FY 2006-07 Capital Outlay Budget Status
By Bill Bowerman, Chief Analyst

Introduction

On December 21, 2006, the Governor vetoed the fiscal year (FY) 2006-07 Capital Outlay budget bill (Enrolled Senate Bill 1081) in its entirety. The veto message stated:

> The State of Michigan continues to face enormous fiscal challenges. The revenues used to support state government operations and provide critical services for our citizens have eroded. The accelerated eliminations of the Single Business Tax by the 93rd Michigan Legislature coupled with its failure to enact replacement revenues have created additional fiscal instability. For these reasons, I do not believe now is an appropriate time to advance capital spending that will place additional pressures and obligations on the state's general fund, even though many of the projects are worthwhile.

While the State Building Authority section of Enrolled Senate Bill (S.B.) 1081 would have committed the State to millions of dollars in General Fund debt service payments in future years, the Capital Outlay budget also contained $148.1 million in Federal funding for various projects throughout the State, including airport improvement projects ($137.3 million), Department of Military Affairs projects ($5.1 million), farmland and open space development acquisition ($1.2 million), and Department of Natural Resources projects ($3.5 million). State Restricted funds totaled $40.6 million and included funding for State parks, the waterways program, and various Department of Transportation facility needs. Consistent with the Governor's S.B. 1081 veto message, the Governor made no recommendation for a FY 2007-08 Capital Outlay budget. The following provides an overview of the Capital Outlay budget and the impact that delaying FY 2006-07 appropriations has on the State of Michigan.

State Building Authority-Financed Projects

Public Act 183 of 1964 created the State Building Authority (SBA) as a means to acquire, construct, furnish, equip, and renovate buildings for the use of the State, including public universities and community colleges. The Capital Outlay budget is the source of planning and construction authorizations for SBA-financed projects. While the line items in the bill reflect $100 appropriations for planning and construction authorizations, the authorizations begin the process of committing the State to debt service payments (funded primarily from the State General Fund) when bonds are sold to finance the State's share of project costs. For FY 2006-07, the Governor had recommended the issuance of $364.3 million in new SBA bond obligations for projects including: State agencies, $50.0 million; State parks, $20.0 million; five universities, $103.2 million; and 14 community colleges, $91.1 million. In addition, the Governor included a new $100.0 million Regional Economic Development Initiative to provide incentives for State/local partnerships. Enrolled S.B. 1081 included projects that would have resulted in the issuance of $381.2 million in new SBA bond obligations. Details on projects included by the Governor, House, Senate, and Conference Committee are available on the Michigan Legislature website:

> http://www.legislature.mi.gov/documents/2005-2006/billanalysis/Senate/pdf/2005-SFA-1081-R.pdf

Department of Transportation – Airport Programs

Supported by the Federal Aviation Administration, State Aeronautics Fund, and local aeronautics match dollars, this appropriation supports a variety of airport improvement and maintenance projects at nearly 100 airports statewide. Enrolled S.B. 1081 contained all of the Governor's $162.9 million recommendation for the Airport Program. Of the total appropriation, $137.3 was Federal Aviation Administration funding. The Department of Transportation estimated that approximately $60.0 million of that amount was discretionary funding and the balance was entitlement funds.

Discretionary funds are usually distributed between April and June. According to the Michigan Department of Transportation, if the Department does not have authorization or eligible projects, the Federal Regional Office could choose to distribute the discretionary funds to other states that have projects ready to go. While entitlement funds are formula driven and eventually will be received by the State, the lack of a State Capital Outlay budget could result in the delay of Federal entitlement funding until the FY 2007-08 Federal budget is adopted. The delay in construction projects results in lost economic opportunity. The Department estimates that approximately 60.0% of Federal funding for airports goes toward salaries and wages. Also, delays result in increased costs due to inflation.

Department of Transportation – State Trunkline Fund

The Governor included $13,187,000 for the Rosa Parks Transportation Project based on increasing the scope/cost of the project from $4.3 million to $17,487,000 and appropriating $3.1 million for State and contract agency salt storage buildings, $413,000 for garage washbays, $2.8 million for a new Transportation Service Center (TSC) in Oakland County, $650,000 related to cost increases for the Cadillac TSC, $750,000 related to cost increases for the Taylor TSC, $750,000 for institutional and agency roads, and $400,000 for miscellaneous remodeling, additions, and emergency maintenance. Enrolled S.B. 1081 included all of the Governor's recommendation with the exception of the Rosa Parks Project. All of the transportation projects included in Enrolled S.B. 1081 were funded by constitutionally dedicated State Trunkline Fund revenue. According to the Michigan Department of Transportation (MDOT), the delay in appropriating funds for State Trunkline Capital Outlay facility projects will result in further deterioration of buildings, additional energy use, failure to comply with requirements of the American with Disabilities Act, failure to meet Department of Environmental Quality mandates regarding salt storage facilities, impairment of MDOT's ability to maintain equipment and vehicles, and continued use of facilities that are inadequate for MDOT's operational needs.

Department of Natural Resources

The Governor's recommendation and Enrolled S.B. 1081 included:

- $2.0 million for State parks repair and maintenance. The appropriation supports repairs and maintenance of items including roofs, fences, and infrastructure at the 96 State parks. Money comes from State Park Improvement Fund (camping and entrance fees) and the State Park Endowment Fund (a portion of oil, gas, and mineral leases on State land).

- $1.4 million for forest roads, bridges, and facilities. This supports the maintenance of roads, bridges, and culverts to provide access for fire protection, law enforcement, logging, and recreation at State forests. Funds come from the Forest Development Fund, which is supported in large part by the sale of timber on State land.

- $2.0 million for wetland acquisition. This appropriation supports the purchase, exchange, and other acquisition of land deemed to be critically important as deer habitat. This appropriation is supported by the Game and Fish Protection Fund (license fees).

- $14,870,000 for the Waterways Boating Program, which included $6,970,000 for State and local infrastructure improvement projects; $1,170,000 for land acquisition; $265,000 for Phase III of the Mackinaw City Marina/Dock project; $510,000 for a new boating access site at Walloon Lake; $332,500 for a local boating access site project in Tuscarora Township; $113,500 for a boat launch and parking lot rehabilitation in Frankfort; $171,000 for a breakwater rubble mound protective structure in Ludington; $463,000 for a seawall and walkway improvements at Mitchell State Park; $875,000 for marina rehabilitation and upgrades in Leland; and $4.0 million for floating dock repairs, replacements, and improvements at DeTour Harbor.

The absence of a Capital Outlay appropriation bill resulted in the loss of the fall construction season for the Department of Natural Resources. Many projects are commenced during the time period when parks are closed. In the case of programs supported with Federal funds or with funds protected from diversion by the Michigan Constitution (Waterways Fund, Game and Fish Protection Fund), the funds may not be used to offset current School Aid Fund and General Fund revenue shortfalls. As with other construction projects, delays postpone economic benefits and result in inflationary increases to the cost of projects.

It is also important to note that the Natural Resources Trust Fund appropriation bill usually comes before the Legislature during the spring in the form of a supplemental appropriation for Capital Outlay. If the Governor's position on capital outlay includes the Trust Fund appropriation, millions of dollars in economic investment for the State and local governments through the Trust Fund will be affected. In December 2006, the Michigan Natural Resources Trust Fund Board recommended funding for 61 recreation projects and land acquisitions totaling over $36.0 million. The Governor stated: "These recommendations represent a substantial economic investment in the quality of life in Michigan." A listing of approved recreation development grants and land acquisition grants can be found at the Department of Natural Resources website:

http://www.michigan.gov/dnr/0,1607,7-153-10371_10402-157611--,00.html

Department of Management and Budget

The Governor's recommendation and Enrolled S.B. 1081 included $2.0 million for lump-sum appropriations to finance repairs at 38 buildings managed by the Department of Management and Budget. This expense is funded from user agency building occupancy charges. The funding is used for emergency and health-related repairs and replacements involving structural, mechanical, and electrical systems. Projects that could have received allocations from the $2.0 million appropriation include the steam utility distribution repairs at the Secondary Complex, leaking roofs at two State-owned office buildings, elevator replacements, and various other safety projects.

Department of Military Affairs

The Governor's recommendation and Enrolled S.B. 1081 contained $5.0 million in Federal funding for building remodeling, additions, and construction at Camp Grayling and Fort Custer. According to the Department of Military Affairs, funding is available from previous Federal appropriations to cover the FY 2006-07 projected expenditures for this line item. Also included in the Military Affairs appropriation was $650,000 ($150,000 Federal; $500,000 State Restricted) to reflect a project cost increase for the Shiawassee County Armory (from $5,700,000 to $6,350,000). The new armory is 95.0% completed, but, the building cannot be used because funds are not available to construct road access and a parking lot until the $650,000 is appropriated.

Department of Agriculture

The Farmland and Open Space Development Acquisition appropriation includes funding from the Agriculture Preservation Fund and match money from the United States Department of Agriculture for the purchase of development rights in unique and critical farmland pursuant to guidelines described in State statute (MCL 324.36101 - 324.36117). The Agriculture Preservation Fund receives money from terminated contracts and penalties from farmland development rights agreements (commonly referred to as P.A. 116 agreements). Landowners also receive a tax credit under the program. As of November 2006, there were 40,150 contracts affecting 3.2 million acres of Michigan farmland. The Governor's recommendation and Enrolled S.B. 1081 included $3,750,000 ($1,250,000 Federal; $2,500,000 State Restricted) for this program. In FY 2005-06, the appropriation for this program was $7.5 million ($5.0 million Agriculture Preservation Fund; $2.5 million Federal). Over $6.1 million of the FY 2005-06 authorization remains. The Management and Budget Act provides that Capital Outlay appropriations are available for multiple fiscal years (MCL 18.1248); therefore, the Department will use FY 2005-06 appropriation authorizations for FY 2006-07 expenditures. Based on actual revenue available for the program, the remaining FY 2005-06 authorization is sufficient to support projected expenditures in FY 2006-07.

Conclusion

In recent years, the Capital Outlay appropriation bill has not been enacted concurrently with other budget bills. The FY 2003-04 Capital Outlay budget was enacted on November 10, 2003; the FY 2004-05 Capital Outlay budget was enacted on April 28, 2005; and the FY 2005-06 Capital Outlay budget was enacted on December 20, 2005. The State is five months into FY 2006-07 without an enacted Capital Outlay budget. The impact of this delay includes the potential loss of Federal funding for airports, delayed repair and maintenance of buildings, and delayed recreation improvement projects for the State and local governments.