

State Notes

TOPICS OF LEGISLATIVE INTEREST

Winter 2017



Capital Outlay Construction Authorizations **By Bill Bowerman, Associate Director**

Introduction

Public Act 340 of 2016 was enacted to make supplemental appropriations for fiscal year (FY) 2015-16 and FY 2016-17. Section 153 of the Act includes FY 2016-17 Capital Outlay construction authorizations for three projects that will be financed through the State Building Authority. They include Southwestern Michigan College's Nursing and Health Education Building renovation and expansion project and two new veterans' homes under the jurisdiction of the Department of Military and Veterans Affairs. This article provides an overview of the construction authorizations contained in Public Act 340 of 2016, and a summary of remaining authorized planning projects that are pending construction authorization from the State.

Capital Outlay Process

The first step in the capital outlay process for universities, community colleges, and State agencies is the development of a capital outlay five-year plan that identifies capital outlay needs, including new construction, or the addition, renovation, adaptive reuse, and improvement of existing facilities. These five-year plans are required to be submitted to the Department of Technology, Management, and Budget (DTMB), the Joint Capital Outlay Subcommittee (JCOS), and the House and Senate Fiscal Agencies by November 1 of each year. Along with the capital outlay five-year plan, institutions may elect to submit a capital outlay request for State cost participation. "Requests for State funding of capital outlay projects are to be a logical extension of information contained in the comprehensive Five-Year Capital Outlay Plan."¹ The DTMB, and the JCOS Chairperson and Vice-Chairperson review and evaluate project requests. Planning authorizations are required to be approved by JCOS and the Legislature through the appropriations process. Appropriations for studies and initial plans (planning authorizations) are not a commitment on the part of the Legislature to appropriate funds for completion of a project. After institutions and State agencies submit completed program statements and schematic planning documents to the DTMB and JCOS, and they review and approve the project, the Legislature may authorize the project for final design and construction in an appropriation bill.

Details on this capital outlay process, including evaluation criteria, timelines, and other requirements, are included in Section 242 of the Management and Budget Act, Public Act 431 of 1984 ([Appendix A](#)).

State Funding

The State Building Authority (SBA) is the mechanism the State uses to fund its share of costs for State agency, university, and community college capital outlay projects. Bonds are issued by the SBA. The State share of costs for university projects has traditionally been based on a 75/25 State/institution match. However, this match has been limited to a maximum State share of \$30.0 million since 2010. Community college projects traditionally have a 50/50 State/institution match. The SBA funds 100% of the cost of State agency projects. To enable the SBA to bond in order to finance

¹ Capital Outlay Budget Instructions Letter to University and Community College Presidents from State Budget Director, September 6, 2016.

the State share of a project's costs, the property is conveyed to the SBA and leased back to the State. Pursuant to the SBA Act (Public Act 183 of 1964), the conveyance and lease are subject to prior approval by the State Administrative Board, the Attorney General, the governing body of the institution of higher education, and the Legislature. While the SBA holds title to the property, the State, through annual appropriations, pays rent to the SBA to fund annual debt service costs of SBA bonds. After the bonds are paid off, the property is transferred back to the State (in the case of State agency projects) or the institution (in the case of university and community college projects). Pursuant to Section 8(15) of the SBA Act, the SBA may not at any one time have obligations outstanding in a principal amount totaling more than \$2.7 billion. Interest and costs of borrowing are not included in this limit. The remaining available bond capacity in FY 2017-18 is currently estimated at \$653.0 million.

The SBA has been a major source of funding for State agency, university, and community college construction projects. The SBA reports that it has financed \$5.4 billion for construction projects since 1979.²

Public Act 340 of 2016 Construction Authorizations

Southwestern Michigan College: Nursing and Health Education Building Renovation and Expansion

The Southwestern Michigan College Nursing and Health Education Building renovation and expansion project was authorized for planning in Public Act 268 of 2016. The 22,000 square-foot project (12,000 square feet of renovation and a 10,000 square-foot addition) includes replacement of exterior cladding, windows, and roofing. Other improvements include energy efficiency upgrades, reallocation of interior spaces, handicap accessible restrooms, interior finishes, mechanical, plumbing, and electrical systems, and site improvements. The project also includes new instructional equipment for nursing and related health fields, new state-of-the-art simulation labs, and other instructional spaces. The renovation will enhance the capacity of the College, located in Dowagiac, to provide students with instruction in the nursing and health fields. Construction is planned to commence in May 2017, with completion by July 2018.

The estimated total cost for the project was \$8.0 million (\$4.0 million State share and \$4.0 million college share). During the final planning and design process, the scope of the work was expanded to address additional energy conservation, electrical and mechanical system upgrades, and asbestos abatement requirements. This resulted in a revised total cost of \$9.6 million. The College is funding the entire \$1.6 million cost increase (total authorized cost \$9,636,900: State share \$4.0 million; Southwestern Michigan College share \$5,636,900). Financing the State share through the SBA will result in an annual State General Fund cost of approximately \$280,000 to \$360,000 until the bonds are paid off (approximately 17 years).

Department of Military and Veterans Affairs: Grand Rapids and Detroit Veterans Home Construction

The DTMB recommendation for the construction of two veterans' homes (in Grand Rapids and Detroit) emanates from a report completed by a workgroup formed to study ways to improve long-term care for Michigan veterans. The impetus for the creation of the Michigan Veterans Workgroup was a February 2016 Michigan Auditor General Performance Audit that identified pervasive issues at the Grand Rapids Home for Veterans. The workgroup consisted of legislators, veterans, State officials, and experts in long-term care facilities and operations. Recommendations of the workgroup included the creation of an authority that "transitions the two state homes [in Grand

² State Building Authority FY 2015 Project Cost Summary Report, March 2016.

Rapids and Marquette] into a system that is responsive to veterans' long-term care and aging needs". Additional facilities were recommended in locations based on the greatest need. The workgroup proposed the following phases:

- First Phase: Metro Detroit and Grand Rapids (replace the aging Grand Rapids home, but stay on the same grounds to take advantage of existing infrastructure)
- Second Phase: Flint/Saginaw/Bay City
- Third Phase: Jackson/Battle Creek
- Fourth Phase: Marquette (replace the aging facility)
- Fifth Phase: Northern Lower Peninsula
- Sixth Phase: Southeastern Michigan

For more detail on the workgroup's recommendations, see "Optimizing Health Care Resources - Team Veteran - How Michigan can help veterans with skilled nursing and long-term health care needs", September 2016.³

More detail on the Michigan Veterans' Facility Authority Act can be found in the Senate Fiscal Agency Summary of Senate Bill 1100 as enrolled.⁴

Construction of the first two veterans' homes will be financed through the SBA, with revenue from those homes being used by the newly created authority to finance the remaining five proposed homes. As mentioned above, Public Act 340 of 2016 includes construction authorizations for the Grand Rapids and Detroit homes. Pursuant to boilerplate language (Sec. 605) in the Department of Military and Veterans Affairs annual budget (Appendix B), the Michigan Veterans Affairs Agency and the DTMB contracted with TowerPinkster for the purpose of developing program and schematic planning documents for the first two new veterans' homes. One will be located on the site of the current Grand Rapids Veterans Home and the other at a yet-to-be-determined site in the City of Detroit. Each facility will be similar, consisting of 120 beds, approximately 132,000 gross square feet, and a central community center for meals, programming, and related services, connected through corridors to small community-based residential living areas.

The total authorized cost for both projects is \$108,049,000, with a State share of \$42,081,000 (38.9%) and an estimated Federal share of \$65,968,000 (61.1%). (Although the United States Department of Veterans Affairs will fund 65.0% of eligible project costs, not all of these costs are eligible.) The application deadline for Federal funds is April 2017. Construction is projected to commence in June 2018, with completion of both facilities by August 2019. While the plans are similar, the cost for the Grand Rapids and Detroit facilities varies due to land acquisition costs in Detroit, and different labor market costs. Of the total estimated \$108,049,000 cost, the Detroit facility accounts for \$58.2 million and the Grand Rapids facility \$49.9 million. Based on eligible costs, the Detroit facility will receive \$34.6 million (59.4%) from Federal funding and the Grand Rapids facility will receive \$31.4 million (63.0%) from Federal funds. Financing the State share (\$42.1 million) through the SBA will result in an annual State General Fund cost of approximately \$2.9 million to \$3.8 million until the bonds are paid off (approximately 17 years).

³The report is available on the website of the Michigan Veterans Affairs Agency, through the Quick Link "[Michigan Veterans Workgroup Report](#)".

⁴[http://www.legislature.mi.gov/\(S\(lxgddladrx4jl3c3vojsjwg3\)\)/mileg.aspx?page=getobject&objectname=2016-SB-1100&query=on&highlight=authority](http://www.legislature.mi.gov/(S(lxgddladrx4jl3c3vojsjwg3))/mileg.aspx?page=getobject&objectname=2016-SB-1100&query=on&highlight=authority)



Conclusion

Public Act 340 of 2016 includes construction authorizations for three SBA-funded projects, with a State share of \$46.1 million (Table 1). When State share of costs comes online for all three projects, the annual State General Fund cost will be approximately \$3.2 million to \$4.1 million until the bonds are paid off (approximately 17 years).

Table 1

Public Act 340 of 2016 Construction Authorizations				
<u>Project</u>	<u>Authorized Cost</u>	<u>State</u>	<u>Federal</u>	<u>Institution</u>
Detroit Veterans Home	\$58,198,000	\$23,616,000	\$34,582,000	\$0
Grand Rapids Veterans Home	49,851,000	18,465,000	31,386,000	0
Southwestern College - Nursing and Health Education Building	<u>9,636,900</u>	<u>4,000,000</u>	<u>0</u>	<u>5,636,900</u>
Total	\$117,685,900	\$46,081,000	\$65,968,000	\$5,636,900

There are 18 existing planning authorizations (eight university, seven community college, and three State agency projects) that are pending construction authorizations from the State. Planning authorizations for those projects were contained in Public Act 241 of 2015 and Public Act 168 of 2016. Two of the State agency projects do not have cost estimates at this time.

The total cost of the pending construction authorizations is \$505.0 million, with an estimated State share of \$239.3 million (not including the yet-to-be-determined cost of two State agency projects). If these pending projects eventually receive construction authorizations, the annual State General Fund cost will be approximately \$16.8 million to \$21.5 million until the bonds are paid off (approximately 17 years). Table 2 provides a listing of pending construction authorizations.



Table 2

**Capital Outlay
 Pending Construction Authorizations**

Universities	Project	Total Cost	State Share ¹	Institution Share
Central	Center for Integrated Health Studies	\$26,000,000	\$19,500,000	\$6,500,000
Eastern	Strong Hall Renovation.....	39,536,000	29,652,000	9,884,000
Grand Valley	Science Classroom, Lab, and Office Building	70,000,000	29,000,000	41,000,000
Lake Superior	Center for Freshwater Research and Education	11,800,000	8,850,000	2,950,000
U of M - Ann Arbor	W.K. Kellogg Institute & Dental Bldg. Expansion & Renovation.....	122,000,000	30,000,000	92,000,000
U of M - Dearborn	Engineering Laboratory Bldg. Replacement.....	90,000,000	30,000,000	60,000,000
U of M - Flint	Murchie Science Building Addition	39,000,000	29,250,000	9,750,000
Western	College of Aviation Renovation & Addition	<u>20,000,000</u>	<u>15,000,000</u>	<u>5,000,000</u>
Subtotal Universities:		\$418,336,000	\$191,252,000	\$227,084,000
Community Colleges				
Delta	Saginaw Center	12,739,000	6,369,500	6,369,500
Kellogg	Regional Manufacturing Tech. Center Renovation & Addition.....	4,300,000	2,150,000	2,150,000
Lake Michigan	Napier Academic Building Renovation and Upgrade	16,954,600	8,477,300	8,477,300
Monroe	Renovation of East & West Technology Buildings	7,500,000	3,750,000	3,750,000
Muskegon	Health and Wellness Center.....	14,100,000	5,640,000	8,460,000
Northwestern	West Hall Innovation Center Renovation & Expansion.....	14,499,400	7,249,700	7,249,700
West Shore	Technical Center Renovation & Addition.....	<u>4,302,600</u>	<u>2,151,300</u>	<u>2,151,300</u>
Subtotal Community Colleges:		\$74,395,600	\$35,787,800	\$38,607,800
State Agencies				
Natural Resources	Coolwater Rearing Hatchery Improvements.....	\$12,242,500	\$12,242,500	N/A
Health & Human Services	Caro Center Modernization	N/A	N/A	N/A
State Police	Grand Rapids Laboratory, Rockford Post, & 6th District Headquarters Consolidation....	N/A	N/A	N/A
Subtotal State Agencies:		\$12,242,500	\$12,242,500	\$0
Total Pending Construction Authorizations		\$504,974,100	\$239,282,300	\$265,691,800

¹ For universities, the State match amounts reflect a 75% State match, limited to \$30.0 million. Grand Valley State University is funding more than the standard match. The State match for community college projects is 50%. Muskegon Community College proposed to fund more than the standard institution match, thereby reducing the State share for that project.

Appendix A

Section 242 of Public Act 431 of 1984 (Management and Budget Act)

Sec. 242. (1) State agencies, community colleges, and universities shall develop 5-year capital outlay plans, which shall identify capital outlay needs, including new construction, or the addition, renovation, adaptive reuse, and improvement of existing facilities. For state agencies, community colleges, and universities, the 5-year capital outlay plans shall also include the need for special maintenance. These plans shall be submitted in electronic format to the department, to members of the JCOS, and to the fiscal agencies not later than November 1 of each year.

(2) The department and the JCOS shall review state agency, community college, and university capital outlay plans. The department and the JCOS shall prioritize requests. The department shall include the department-recommended requests in the executive budget recommendation. If a state agency, community college, or university subsequently modifies a request, the revision shall be submitted to the department, members of the JCOS, and the fiscal agencies.

(3) The department and the chairperson and vice-chairperson of the JCOS shall review and evaluate by March 1 of each year capital outlay project requests received from community colleges, universities, and state agencies. All of the following shall be considered when reviewing and evaluating project requests: (a) Investment in existing facilities and infrastructure.

(b) Life and safety deficiencies.

(c) Occupancy and utilization of existing facilities.

(d) Integration of sustainable design to enhance the efficiency and operations of the facility.

(e) Estimated cost.

(f) Institutional support.

(g) Estimated operating costs.

(h) Impact on tuition, if any.

(i) Impact on job creation in this state.

(j) History of prior appropriations received by the institution through the capital outlay process.

(4) The request for program development and schematic planning must be approved by the JCOS and the legislature through the appropriation process.

(5) Program statements and schematic planning documents shall be reviewed by the department and, when the review is completed, shall be submitted to the JCOS as either approved or not approved.

(6) Upon review and approval by the JCOS, the JCOS and the legislature may authorize the project for final design and construction with a line-item appropriation in an appropriation bill. The appropriations bill shall include appropriations for projected state building authority rental payments associated with the projects that are authorized for construction. The authorization shall include the legislative lease approval required for state building authority financing.

(7) Preliminary plans shall be submitted to the department for review and approval. The department shall review and approve final plans to be prepared for bidding. A summary of bid results shall be submitted to the JCOS.

(8) The department shall provide for review and oversight of capital outlay projects financed either in total or in part by the state building authority pursuant to the provisions of sections 237 and 237a.

(9) Appropriations made for studies and initial plans shall not be considered a commitment on the part of the legislature to appropriate funds for the completion of plans or construction of any project based on the studies or planning documents.



Appendix B

Article XIV, Section 605 of Public Act 268 of 2016 (FY 2016-17 Appropriation Bill for the Department Of Military and Veterans Affairs)

VETERANS' HOMES PLANNING

Sec. 605. (1) Funds appropriated in part 1 for veterans' homes planning shall be used for the purposes of improving this state's services in providing homes for veterans, which includes, but is not limited to, the following:

- (a) Developing a long-term plan for this state's veterans' homes.
- (b) The acquisition of land or facilities for the purpose of expanding upon existing veterans' homes or creating new veterans' homes.
- (c) Constructing 1 or more new veterans' homes.
- (d) Renovation of an existing veterans' home, in whole or in part, or its associated facilities and infrastructure.

(2) The department shall issue a report quarterly regarding the progress of any project undertaken utilizing funds appropriated for veterans' homes planning to the chairs of the house and senate standing committees on appropriations, the subcommittees, and the house and senate fiscal agencies.