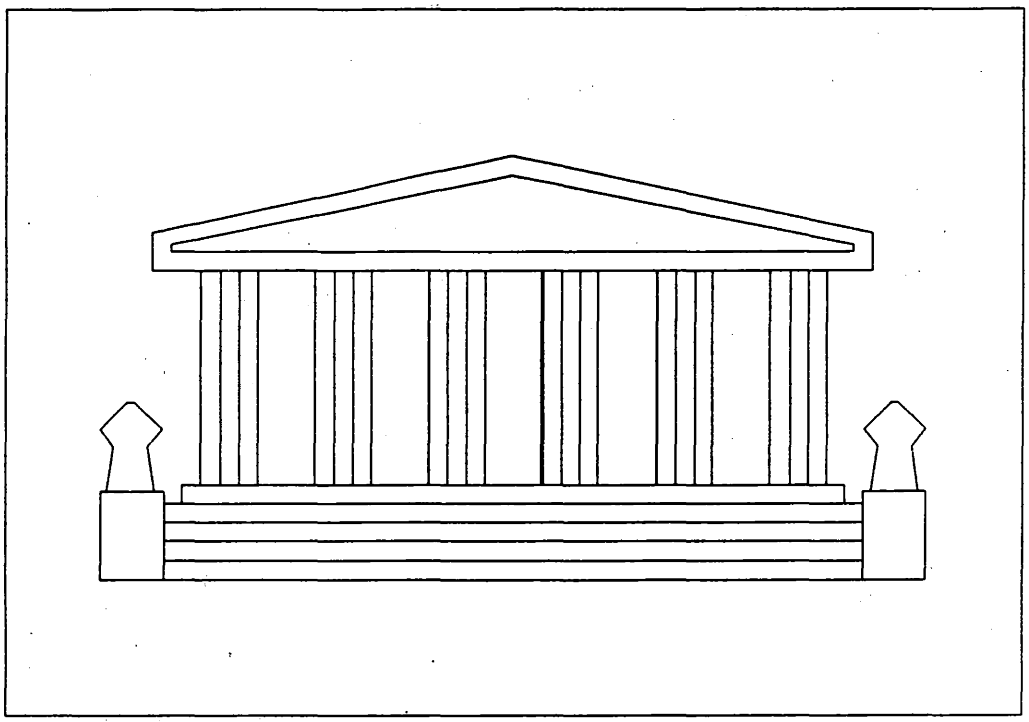
REPORT OF THE JOINT LEGISLATIVE STUDY ON CAPITAL NEEDS



Senators

Gene Merriam
Earl Renneke
Don Storm
Gene Waldorf

Representatives

Bob Anderson
Lyndon Carlson
Andy Dawkins
Connie Morrisson

Department of Administration
Department of Finance

RECOMMENDATIONS

The Study Group recommends the following:

1. Department of Administration

- The Department of Administration should take a more active part in the preparation of capital requests for state buildings.

- The Department should discuss various architectural and cost standards with experts from the public and private sector. It should recommend the use of appropriate design and cost standards for all capital requests. It should consider locational questions in siting state buildings. Departmental findings with regards to these matters should be included in capital budget requests.

- The Department of Administration should review agency requests for state buildings, and help agencies prepare adequate plans for their proposed buildings.

2. Department of Finance

- The Department of Finance should prepare an annual debt management report to the Legislature, to be delivered on February 1 of each year. This report would estimate the total amount of state indebtedness, discussing all types of debt instruments. The report would specifically estimate how much debt has been put "off-budget". The report would project debt forward for the next two biennia.

- The capital budget should be submitted with projects rank ordered in two ways: in order of importance among all budget projects as determined by the Governor; in order of importance among that agency's requests as determined by the agency that originated the request.

- The Department of Finance should prepare a facilities note on a given capital project, estimating program cost impacts and efficiencies stemming from the approval of that project.

- The Department of Finance should provide a biennial compilation of all agency, higher education, and other long term and six year capital needs plans to the Legislature. These projects should be ranked by the agencies making the requests. It is clear that some projects will arise on a sudden basis; in those instances, the executive branch should supply as much information as possible.

3. Legislature

- The Legislature is interested in data that will track the use, life expectancy, and program efficiencies that can be gained from a new capital project.

- The Legislature and executive branch should consider ways of making space and building decisions impact the operating budget of the agencies that ask for proposed changes, as a way to increase efficiency in the management of space.

- The Legislature should amend existing statutes to allow the state greater flexibility in purchasing and developing land.

- The Senate and House should each adopt a budget resolution specifying total capital budget expenditures and targets for each of the respective divisions.

- The Senate Finance and House Appropriations Committees should assign capital budgeting as a responsibility to a fiscal analyst for each committee.

REPORT OF THE LEGISLATIVE
STUDY GROUP ON CAPITAL NEEDS

Chapter 610, Article 1 of the 1990 Minnesota Statutes created a Joint Legislative Study on capital needs. The duties of the Study were to "consider ways to improve the process for planning and funding state capital projects." The Joint Legislative Study On Capital Needs met during the Fall of 1990 and early 1991 and heard testimony on the need for changes in Minnesota's capital budget process.

Demands for capital expenditures come from every corner of the state. The legislative decision making process is being squeezed between rising demands and uneven planning efforts. The Minnesota Legislature and the Executive Branch have for some time struggled with the process for making capital improvements.

1. Definition

A capital budget is the State selling bonds backed by the State for the construction of buildings owned and used by the State. Or at least that is what a capital budget has been, traditionally.

* An up to date definition would have to expand what bonds are sold for, including waste water treatment facilities, transitional housing projects, and other non-traditional expenditures.

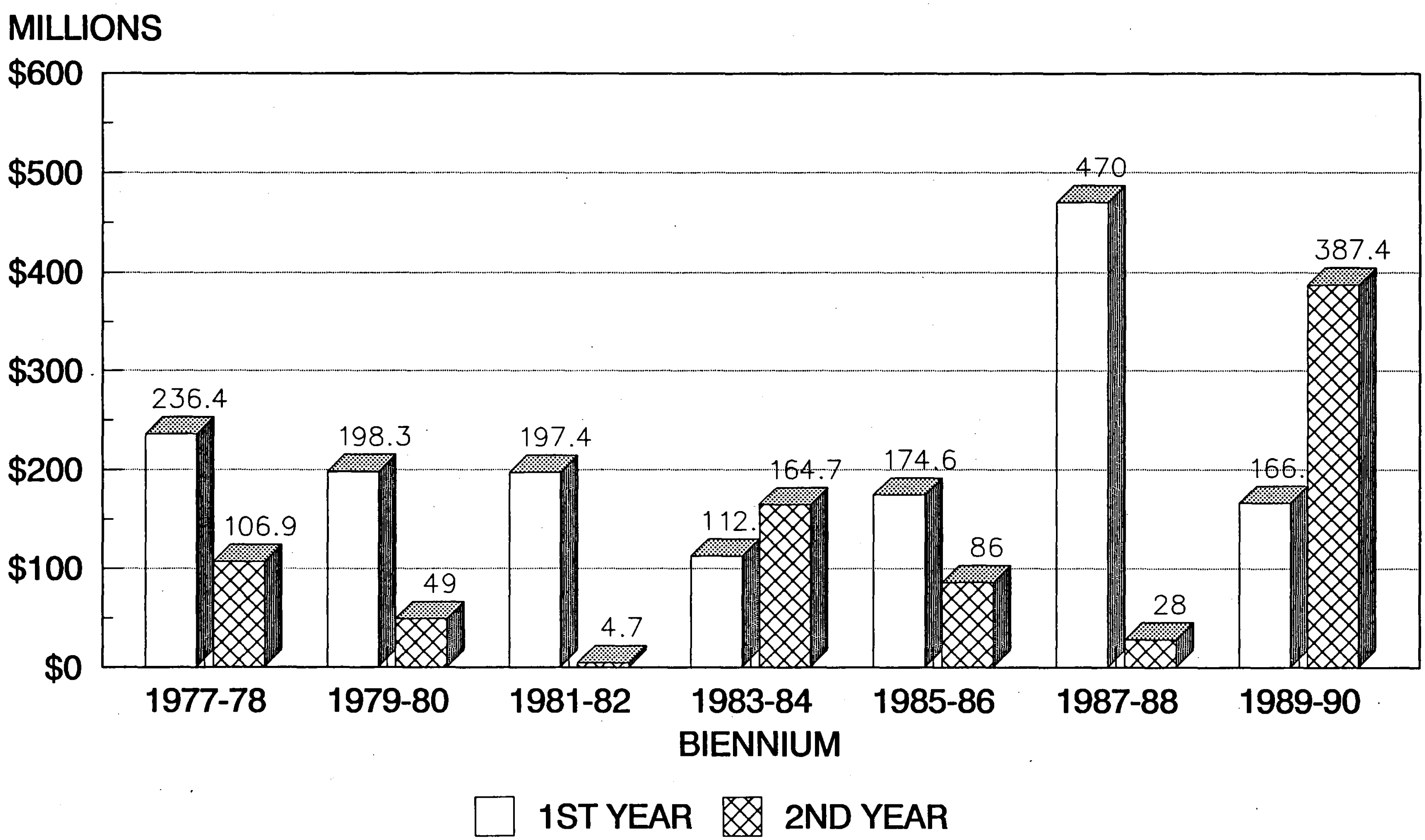
* An up to date definition would have to expand how projects are financed: lease-purchase agreements, design-build arrangements, and other variations on the theme of building procurement.

* An up to date definition would have to expand on who uses the end result. These are not just warehouses for state employees, or schools. Parks, computers, transitional housing, waste water treatment plants, mental health treatment centers, and other varieties of capital projects have been included.

* An up to date definition would have to include comments on just what a budget is---a budget is supposed to be a political and economic prioritization of expenditures to meet needs.

Why does the old definition need expansion? Partly because the size of capital budgets has expanded. (See graph) With the increase in the amount of bonds sold for capital expenditures has come an increased variety of uses. As state government assumes more functions and complexity simple definitions of the capital budget become inaccurate.

GENERAL OBLIGATION BONDS AUTHORIZED
(EXCLUDING TRUNK HIGHWAY)
BY BIENNIUM



SENATE RESEARCH
11/90

2. Historical Background

The modern era of capital budgeting began in 1955, when the idea for the establishment of a Legislative Building Commission (LBC) was born. The Commission was the key player for capital budgeting from 1955-1973. From 1973 to date the capital bonding bill has been put together by the divisions of the Senate Finance and House Appropriations Committees.

The rejected building commission model of capital budgeting is typically contrasted with the current committee and division model of capital budgeting. This engenders a debate with expressions of preference for one or the other method. Yet other alternatives exist.

The original idea for an LBC was the result of problems with the capital budget experienced by the incoming Orville Freeman administration in 1955. The 1955 capital budget was ill-prepared and larger than expected. Instead of going forward, the Legislature and the Freeman administration agreed to a special interim study. This study produced what everyone agreed was a better capital budget. That one time interim panel was formalized as the new Legislative Building Commission, which made budgets from 1957-1973.

The Legislative Building Commission worked well for a time. The LBC was able to handle three main functions: A) with assistance from state agencies it planned the long term building needs of the state; B) it decided what would be in each year's capital budget; C) its decisions were legitimate with the legislature and governor.

In 1973 the LBC was abolished by the incoming DFL majority. There have been many reasons given for the demise of the LBC. A number of pork barrel projects had met LBC approval. The LBC had for too long been a Conservative instrument. Projections suggested that few new buildings would be needed. Another reason exists for the demise of the LBC: it was tasked with doing too much.

In modern budgeting, it is unusual for one small body to subsume planning functions, budget preparation functions, and political passage responsibilities. The LBC was over-burdened, and would have certainly struggled with the large capital budgets passed in recent years. It was not structured to be a good planning body, and was too non-representative to be a legitimate political decision maker.

In 1973 the LBC was dissolved, and the capital budget was made the responsibility of the existing Senate Finance and House Appropriations Committees. In the executive branch the planning function for capital projects was split between the Department of Administration, the Department of Finance, and the requesting agency.

Between 1973 and 1990 the Legislature spent millions of dollars and built, purchased, and renovated numerous significant structures. The legislative process was a slight variation of the normal process for passing bills. (See Appendix 2) Over this time there were several attempts to revitalize the old LBC model of capital budgeting, but none passed either body.

One criticism of recent capital budgeting efforts has been the lack of a centralized clearing house for proposals and planning. Each agency or system develops its own ideas, and lobbies directly with the Legislature for passage. The decentralization of planning has been a barrier to comparisons between projects. It is disconcerting to legislators to be lobbied by each of the various state agencies and systems, with no one plan to guide all capital needs.

With the 1990 passage of one of the largest capital budgets ever, the Legislature decided that the process for capital budgeting, and the finances that were being committed, should be the subject of a review by the Legislature.

3. NCSL Recommendations

Minnesota is not unique in desiring a review of capital budget procedures. Many states are examining their capital budgets with a closer scrutiny than had been the practice. During the 1970s and 1980s state and local budgets were growing at a fast rate. Capital expenditures were easily absorbed in these rising budgets. In many states the link between spending for programs and spending on capital projects was ignored.

As state budgets tighten, capital expenditures and increased debt loads place burdens on general fund budgets that increase the pinch many states are feeling. As a result, states are reviewing their debt loads and increasing legislative control over capital budgets. In 1988 the National Conference of State Legislatures (NCSL) conducted a study of capital budgeting in the states.

The NCSL found that , "Legislatures should pay more attention to capital budgeting and finance issues at both the state and local levels because federal infrastructure assistance is declining; the need to add to, replace, or renovate aging capital stock is growing; and the capital finance environment has changed significantly." (Appendix 3)

The NCSL made a large number of reform suggestions. Most of its suggestions revolve around two central themes: A) Legislatures need better information about capital projects, and should require it from the executive branch; B) Legislatures need better processes to consider these projects, and should require this of themselves.

4. The Governor's Task Force

The Study Group received a report from a task force on capital budgeting appointed by Governor Perpich. The Governor's task force was chaired by William Morrish, Director of the University of Minnesota's Design Center for American Urban Landscape. (Appendix 1)

The Governor's task force considered three different aspects of the problem: urban design; program considerations; and finance and implementation. The conclusion of the task force was that major changes are needed in Minnesota's capital budgeting process.

The Urban Design Subcommittee of the task force recommended that State buildings be categorized according to function. For example, ceremonial buildings would receive different attention, and be reviewed with different planning criteria than would an office building. This Subcommittee considered the urban design ramifications of capital projects---how would they fit into current plans, and would they enhance their surroundings in an aesthetic and social manner?

The Program Subcommittee examined current and future spacial needs for state government. This Subcommittee recommended the establishment of a new process for planning capital projects. A Facilities Advisory Board would oversee planning for state buildings. New standards would be put in place for the planning of these buildings. New management responsibilities would be given to the Departments of Administration and Finance.

The Finance and Implementation Subcommittee reviewed the way the State acquires and finances its capital projects. Arrangements such as leasing, owning, lease-purchase, design-build, and other methods were considered. Flexibility in financing on the part of the State was urged.

If the Governor's task force report were boiled down to one sentence, it would be a call for a more centralized process for creating planning information of all sorts, and more innovation and flexibility in financing capital projects. The task force suggested reforms that would enhance the amount, quality, and timing of information that goes into the process.

5. Testimony

The Study Group heard testimony on several issues: the Governor's task force report; the issue of whether to own or lease space; the history of capital budgeting; the nature of the current legislative process; and the need for reform of the executive and legislative processes.

Testimony described the current planning process as decentralized and noted that projects from different systems used numbers that were not comparable. For example, a cost per square foot figure from a higher education project might not compare with a cost per square foot figure from a transportation project.

In addition, some capital projects arrive at the Legislature without adequate background of an engineering or architectural nature. Some capital projects are better planned than others.

The Study Group also heard testimony about the nature of the legislative process. Two concerns were heard: the legislative process was not coordinated and did not provide a long term look at capital needs; the legislative process did consider some projects without adequate information.

The capital budget is typically the subject of a major conference committee at the end of each legislative session. During this conference committee a number of deals are struck. In recent years both the Governor's capital budget and the conference committee's final deliberations have included projects that had not been subject to careful planning.

Some concern was expressed that executive branch changes would need additional staff resources if they were to work. Also, testimony was heard that wondered if executive branch reforms were enough----can a new planning process flourish if the legislature does not change its ways?

In addition to testimony, the Study Group discussed the current system and its problems over three hearings. This discussion was animated, and allowed for a contrast of ideas. For example, one reform theme would call for an improved centralized planning process, and more centralized review by the legislature. Another point of view prefers a decentralized process, but one in which the cost for space decisions has an impact on agency budgets.

The idea of a market rent that would be charged in each agency's operating budget was put forth by the Governor's task force. This idea is similar to the new practice of making higher education systems pay part of their debt service burden. The goal is to make localized decision making possible, but to give those decisions a real cost impact on operating budgets.

The need for a better process appears self-evident. Reforms, on the other hand, are complex and difficult to design. From one point of view the status quo works fine---buildings get built, bonds get sold, and projects get selected. But the State has a stake in having good buildings built, for real needs, reflecting a long term plan, selected in a fair and democratic manner.

6. Conclusion

The Legislative Study on Capital Needs was charged with considering ways to improve the process of planning and funding state capital projects. To improve the process it is important to understand it, and the Study Group has made major efforts to discover the history of capital finance in Minnesota.

The capital budget does not stand alone. Especially in the past decade, the capital budget has been considered by a Legislature that is also deciding the regular budget. Often the analysts and experts who work on the regular budget are also called on to provide capital budget background. The agency representatives may also lobby for new buildings, structures, or renovations.

There is a window of opportunity for change in capital budgeting procedures. For the next few years the high amount of state debt may shrink the size of capital expenditures. A $400 million capital budget, as has been seen in recent years, may not be possible for the next biennium. As a result, improvements in the process could be put in place before the expenditures once again rise.

This Study Group has considered a number of specific reforms, but the goal is clear. The key to any process is the deliverance of the right information at the right time to the right decision makers. The decision makers in capital budgeting are the state legislators.

APPENDIX A

EXECUTIVE SUMMARY: GOVERNOR'S TASK FORCE ON STATE BUILDINGS

Governor Rudy Perpich officially appointed the Task Force on State Buildings on April 4, 1990. Chaired by William Morrish, Director of the University of Minnesota's Design Center for American Urban Landscape, the task force was comprised of fifteen individuals including local and State elected officials and real estate, legal, design, and construction professionals. The task force members gave generously of their time and expertise, meeting as a full committee six times and, additionally, a number of times in subcommittees.

The strategic goal of the task force was to determine ways by which the state's acquisition and management of facilities (both owned and leased) might be improved in order to:

- maximize the efficiency of the operation of State government;
- provide a work environment for State personnel of appropriate quality:
- minimize the long term costs associated with housing State government;
- integrate State facilities within the context of neighborhoods, cities, and metropolitan areas with attention to image, aesthetic urban design, and infrastructure issues; and
- maximize the convenience of access to State facilities to the Minnesota taxpayer, both from the perspective of the elected officials and community leaders who do business with the State and the clients receiving State services.

Much of the work of the task force was conducted in three subcommittees:

Urban Design Subcommittee – chaired by William Morrish and dealt with land use, symbolic image, and transportation issues. The subcommittee recommended categorizing State buildings and facilities as ceremonial, background or support, and prioritizing the proximity of the buildings and functions to the Capitol. Other urban design issues reviewed by the subcommittee included the Capital City Concept, the Capitol Area boundaries, ties between the City of St. Paul and the State Capitol, and transportation issues, including Light Rail Transit.

Program Subcommittee -- chaired by Duane Thorbeck studied current and future space needs, existing department locations, and interdepartmental relationships. The primary recommendations of this subcommittee were an outline for a project management process which is based on a Facilities Advisory Board which would establish the standards for all State buildings and an outline for a standards manual describing spatial and quantitative criteria for State facilities. The subcommittee studies at length past and current processes by which agencies submit capital funding requests in order to recommend a new process.

Finance and Implementation Subcommittee -- chaired by Gene Haugland dealt with financing modes of acquisition, planning coordination, and legislative review issues. The subcommittee studied the Department of Administration's proposed policy of increasing facilities owned by the State and in the alternative, recommended a case by case financial analysis of the relative desirability of leasing or owning. Requests were sent to all fifty states for information on their approach to State facilities, and the responses were studied by the subcommittee. Generally, Minnesota appears positioned to assume a leadership role in facilities acquisition and management. The subcommittee recommended that the State be provided with more flexibility in acquiring facilities by the addition of lease-purchase and long term lease authorities, as well as flexible construction delivery methods such as design-build and construction management.

The full task force met initially to review the current situation relating to the state's facilities, subsequently to receive the reports of the subcommittees, and finally to edit and to finalize drafts of this report. The task force also was presented with several reports, including: Dan Cornejo, director of Planning and Economic Development for the City of St. Paul, who presented a planning scheme called the Capital City concept; Jack Brown, director of facilities for the State of Washington, who presented the design-build approach employed by their State; and Richard Faricy, a local architect retained as a consultant to the Capitol Area Architectural and Planning Board, who presented their work on expansion into the east Capitol area.

The task force and subcommittees generated an abundance of ideas that were broad in scope and significant in impact relating to the improvement of the state's approach to facilities. As the meetings progressed, a consensus emerged that the major change needed was to modify the state's decision making process for all buildings. Rather than making specific standards and locational recommendations, the report of the task force describes a structured process that if implemented by the Governor and Legislature, will lead to superior quality in future decisions. The potential benefits in better management of the state's multi-billion dollar capital assets will more than offset the relatively minor increases in administrative costs resulting from the implementation of these recommendations.

The report of the task force is influenced heavily by five concepts that are central to its recommended process.

- First, the State should expand significantly its long range planning efforts for facilities. This will enhance the state's ability to achieve its strategic goals.

- Second, a facilities advisory board should be formed which will participate in the development of the statewide comprehensive master plan, establish standards, and review projects for compliance for all State buildings.

- Third, a fair market rent should be charged to all agencies for their use of facilities in order to establish equitable access to quality space, to improve and adequately maintain existing facilities, and to motivate the efficient use of space by the agencies' administrations.

- Fourth, the State should increase its flexibility in leasing and ownership alternatives, as well as construction delivery methods. Properly managed, this will lower the total cost of facilities to the State.

- Fifth, the State should strive for excellence in the functional, aesthetic and symbolic quality of its buildings and grounds with appropriate consideration of cost and value.

APPENDIX B

THE LEGISLATURE'S PROCESS FOR MAKING A CAPITAL BUDGET

(SOURCE: SENATE RESEARCH)

The 1990 Legislature passed the second largest capital bonding bill ever in Minnesota. Along with this bonding, the bill created a Joint Legislative Study on Capital Needs. This study is charged with the responsibility to examine all aspects of capital budgeting--future capital needs, the executive branch process, the legislative process, and the concerns of Minnesota's citizens.

There are two intertwined parts of capital budgeting--the planning, and the political process. The Legislature can choose to revamp the planning that goes into capital budgeting, to make the information better and more timely. The Legislature can also choose to revamp the political process which makes the decisions. Sometimes these two aspects are pursued together, sometimes one or the other is independently pursued.

This memorandum outlines the legislative capital budgeting process used in Minnesota, both now and in the past. This process is contrasted with reform recommendations put forth by the National Conference of State Legislatures (NCSL).

1. HOW WE USED TO DO IT: Minnesota's Legislative Building Commission

- In 1955, because of difficulties the legislative and executive branches experienced putting together a capital budget, an interim building commission was created to study the state's building needs. In 1957, the group returned to the Legislature and recommended the creation of a permanent body, and the Legislative Building Commission (LBC) was born.

- From its creation until it was abolished in 1973, the LBC was the main player in the state's capital budgeting process.

- The commission was comprised of five Senators and five House members who, for the most part, were the chairs of the divisions of the Senate Finance and House Appropriations Committees. The minority party of each house was also represented on the commission and the Commissioner of Administration was an *ex officio* member.

- The commission had a rule that no appropriation for a project could be included in a bill unless the site had been visited. That rule gave legislative leaders a right to say no to an appropriation request that came up on short notice. It often took four to six years from the time the commission first visited a project until it recommended funding for planning.

- The LBC submitted its recommendation to the Legislature, and to the Governor through the Department of Administration. The Governor would approve or modify the recommendations, and they became his capital bonding bill. With very few exceptions, governors accepted the LBC recommendations intact.

- The LBC bonding bills typically had the support of the Governor and key members of both houses' money committees and faced little opposition in the Legislature.

- The LBC was abolished in 1973, and its responsibilities were transferred to the chairmen of the Senate Finance and House Appropriations Committees. A variety of reasons have been given for its demise: a new DFL majority; a projected decrease in the need to build state buildings; and the displeasure of some legislators with "pork barrel" projects which had in the past received LBC approval.

- From a planning perspective, the crucial portion of the LBC's work was completed before the legislative session began. The budgets designed by the LBC were notable for the detail and planning that went into them.

2. THE CURRENT MINNESOTA LEGISLATIVE CAPITAL BUDGETING PROCESS

a. Overview

- The governor submits a capital budget to the Legislature by April 15 of the odd-numbered year. Typically, this budget is actually delivered in March. This deadline allows the Legislature to determine the financial impact of capital improvements on the overall budget. The Legislature does not require any specific financial or planning documents to be included in this submission.

- There is usually one major capital budget bill in each house, although in some years capital projects have been included in various spending bills.

- Since the Legislative Building Commission was abolished in 1973, a significant capital budgeting bill has passed every year except 1980, 1982, 1986, and 1988. In 1989 an emergency bill passed, and in 1990 a large bonding bill became law. (See graph.)

b. Process

- The Minnesota version of legislative capital budgeting is a slightly expanded version of the way all Minnesota spending bills become law.

- Capital budget bills are sent for review to the Finance Committee in the Senate and the Appropriations Committee in the House.

- Review of the capital budget is assigned to be accomplished in the committee divisions. Each division is to review those pieces of the capital budget appropriate to its areas of responsibility.

- Interim site visits are made by divisions and are carried out at the discretion of the division chair and members, if time permits. The number of site visits made has varied from year to year.

- Chairs, members, and fiscal analysts assigned to the Senate Finance and House Appropriations Committees are responsible for review of the operating budget and the capital budget in their areas of expertise. There are no fiscal analysts in either body whose only responsibility is capital budgeting.

- After review and allocations in divisions, a capital budget bill is assembled by the full committee. After committee passage, the capital budget bills are sent to the floor of each house.

- Passage of a capital budget bill requires a three-fifths vote of all members.

- Capital budget bills are sent to conference committees in order to reconcile differences between House and Senate versions. Conference committee deliberations are the crucial legislative moment for the capital budget bill.

- Passage of the conference reports by each house (with three fifths majority) is followed by the Governor's signature, line-item veto, or veto.

- Before a project begins, the chairs of the Senate Finance and House Appropriations Committees are notified.

3. GOALS FOR LEGISLATIVE CAPITAL BUDGETING

- Capital budgeting should be thoughtful, with adequate time for planning, site visits, and cost comparisons.

- The Legislature should have a significant role early in the process in deciding which capital projects should be funded, and when these projects should be funded.

- In line with legislative control over spending and taxation issues, the Legislature should continue to determine exactly what the State's debt policy will be.

- Project costs should be important, including impacts on operating costs. Early in the process, alternatives for each new building such as leasing, upgrading existing buildings, or just making do for awhile should be considered.

- With scarce finances, and a huge demand for buildings in the next decade, the process needs to be seen as fair and impartial. A capital budgeting bill is inherently political. The challenge is to design a process that is seen as politically fair. The process should also select good buildings that the state actually needs. These are not modest goals for a political process.

- Any capital budgeting process must include time for public comment.

- The Governor should be able to insert his or her own priorities into the capital budgeting process.

4. THE NCSL MODEL FOR LEGISLATIVE CAPITAL BUDGETING

a. Executive Reforms

- The NCSL recommends that legislatures require much more from executive branch agencies in the way of planning documents, building information, and fiscal data. The Task Force on State Buildings is making a set of suggestions for executive branch changes that will go a long way toward meeting the NCSL's goals for executive capital budgeting.

- Currently, the Minnesota Department of Finance prepares a long-range plan, based on needs assessments from the various state agencies. The Minnesota Legislature is limited to an advisory and oversight role in the formation of the agencies' six-year capital budget plans, and many legislators are not aware that the six-year plans exist.

- In six states, the executive must consult the legislature in compiling a long-range plan. In five states, the legislature must approve the long-range plan.

- The NCSL recommends that legislatures develop and use explicit evaluation criteria, such as measures of fiscal impacts or economic effects, as a means of selecting projects rationally, and avoiding "an increased tendency to select projects on the basis of a political beauty contest or 'delivering the pork.'" Only four state legislatures use explicit criteria; Minnesota is not one of these four.

- In some years capital budgets have explicitly ranked a request in order of importance, according to the agency that asked. In other years the rankings are less clear. The NCSL recommends that executive requests also rank order projects within departments and across departments.

- Neither the executive agencies nor the Minnesota legislative staff currently have any responsibility to routinely prepare reports on capital outlay and capital appropriations. It is likely that additional executive staff will be needed to make a new planning process work; more legislative staff may also be necessary.

b. Legislative Reforms

- An adequate legislative capital budget process, in the NCSL's view, has two stages: first, a long-term planning stage, with site visits, detailed review, and preliminary legislative approval of all proposed projects; and second, fiscal consideration by finance and appropriations committees of a given year's projects.

- The long-term planning review of capital budgets might be accomplished through a separate capital policy committee, established in each house, or a separate capital subcommittee of the finance and appropriations committees. Another possibility is a legislative or citizens' advisory commission given the responsibility of review during the interim.

- If a separate policy committee or a separate subcommittee were established, this body should be given responsibility for interim site visits, planning, and approval of a legislative plan for capital improvements.

- This body should originate the capital budget bill, and should approve each project in two stages: a separate planning authorization, and a construction appropriation authorized in a later session.

- A commission could be made up of citizens, including former governors, legislators, university presidents, labor leaders, and other influential citizens. The commission might also be a purely legislative body made up of key, experienced legislative leaders. In either case, the commission should report its version of a six-year plan to both the legislature and the executive.

- According to the NCSL, the recommendations of this policy group should be referred next to the existing finance and appropriations committees, where a final review would consider the fiscal advisability of the bill, while maintaining the integrity of the long-term legislative plan.

5. CONCLUSION

- A set of executive reforms has been designed by the Task Force on State Buildings. These executive reforms will increase the amount of information the Legislature will have when it considers a new building. The Joint Legislative Study Group needs to face two questions:

  -- Should the Legislature write any of these executive reforms into law?

  -- Are there legislative reforms that would logically accompany these executive reforms?

- If the legislature wishes to adopt any legislative procedural changes to accompany proposed executive changes, the following menu of options exists:

  -- Legislative membership on the new executive standards group currently being proposed.

  -- A building commission similar to the LBC which existed from 1955 to 1973.

  -- Separate capital budgeting committees in each house.

  -- Separate capital budgeting subcommittees of the Senate and House committees.

  -- A six-year plan which must be annually updated by the executive branch and annually approved by the Legislature.

  -- Mandatory separate year passage of planning and construction phases of each project.

  -- Refusal to build any buildings that have not passed the new standards-review process.

  -- Requirement that a legislative site visit be made of any proposed new project.

- -- Requirement that capital budget bills, except for emergencies, may be passed only in the second year of a biennium.

- -- Addition of staff in both executive and legislative branches assigned exclusively to capital budgeting.

APPENDIX C

EXECUTIVE SUMMARY: A LIST OF RECOMMENDATIONS OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

1. Legislatures should pay more attention to capital budgeting and finance issues at both the state and local levels because federal infrastructure assistance is declining; the need to add to, replace, or renovate aging capital stock is growing; and the capital finance environment has changed significantly.

2. Legislatures should strengthen the legislative machinery for dealing with infrastructure issues. Legislatures should consider setting up independent capital advisory groups and hiring staff to specialize in capital budgeting and finance.

3. To make informed decisions, legislatures should have comprehensive information about the state's existing capital stock and future capital requirements. This information should include a central inventory of state capital, an up-to-date assessment of its condition, and a long-range capital plan that shows the infrastructure needs of the state over the next five to 10 years and that indicates how and where the current capital budget request fits into the long-term capital plan.

4. To facilitate legislative as well as public review of proposed capital projects, the executive branch should be required to submit to the legislature a single capital budget that includes all capital requests for the forthcoming budget period, by priority, across agencies, presented by funding source.

5. Legislatures should require the executive branch to provide information on the need for, importance and costs of, alternatives to, operating costs associated with, and different ways of financing proposed capital projects.

6. States should clearly define what constitutes a capital project and delineate how and where such projects appear in the budget bill(s).

7. For projects with a price tag of at least approximately $1 million, states should consider separate appropriations for project planning and preliminary design.

8. Legislatures should commit to appropriating needed monies for maintenance based on a schedule that takes into account the age, condition, expected life, continued need for, and availability of less expensive alternatives to existing capital stock. States should have standards for determining maintenance needs.

9. Legislatures should develop guidelines for reviewing and evaluating capital budget requests and require comprehensive fiscal notes on all new legislation involving capital projects.

10. States should seriously examine the feasibility and desirability of contracting with the private sector fore the construction, operation, servicing and/or maintenance of capital projects and the programs they house or operate as part of the capital budget review process.

11. Legislatures should play an active role in reviewing the transfer of capital funds after they have been appropriated and decisions to cancel, delay, or change funding for approved capital projects.

12. Legislatures should monitor capital projects as closely as they do department operating budgets to make sure that appropriated funds are being used efficiently and effectively; to make sure that they are being used as intended; and to guard against waste, fraud, and abuse.

13. States should have the flexibility to select from a wide array of options for financing capital projects. Wherever it is feasible and efficient to do so, user fees should be relied on to finance capital projects. In selecting a financing option, legislatures should look for ways to keep down total project costs and should maintain close oversight of the use of different financing mechanisms. In light of federal tax reform, legislatures also should reassess traditional as well as newer approaches to capital finance to determine which are most cost effective and best fit state needs.

14. Because state debt management practices have important economic, public policy, and fiscal policy implications, legislatures should take an active role in formulating and monitoring debt policy. Legislatures should oversee not only debt financed directly by the state but also debt that is backed by the state's full faith and credit or some other form of commitment, such as a reserve fund, lease arrangement, or dedicated tax. Legislatures should participate in decisions regarding volume cap allocations. Finally, legislatures should support steps to strengthen their state's credit.

15. Recent federal budget cuts and tax reforms have made it more difficult for local governments to finance some capital projects. After assessing their own fiscal conditions, capacities, and constraints, as well as those of local governments, some states may decide to set up financial intermediation programs to assist local governments in getting financing for necessary local capital projects. These programs might include local interest buy-downs, loan guarantees, bond insurance, and creation of a state bond bank. It should be noted, however, that states are not necessarily in any better position to help finance capital projects than are local governments, and that in no case should local projects be supported by the state unless there is a clear state interest.

16. States that want to and have the capacity to provide localities with increased assistance in meeting local capital needs also may want to consider increasing state aid, loosening state restrictions on local expenditures and indebtedness, and providing supervision and technical assistance.