HOUSE FISCAL AGENCY

Budget Briefing: Capital Outlay

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December 2025

Briefing Topics

- Joint Capital Outlay Subcommittee
- Capital Outlay Process
- State Building Authority
- Capital Outlay Financing
- Capital Outlay Projects
- Major Budget Topics

Capital Outlay

- Capital Outlay: The budgetary and administrative functions devoted to planning and financing acquisition, construction, renovation, and maintenance of facilities used by state agencies, public universities, and community colleges
- Typically involves larger, more expensive construction or renovation projects by state agencies, universities and community colleges that are not self-liquidating (i.e. cannot generate revenue to pay for itself)
- Legislative oversight of the capital outlay process is provided through the Joint Capital Outlay Subcommittee (JCOS)
- Statutory acts governing the capital outlay process include the Management and Budget Act, 1984 PA 431, as amended, and the State Building Authority Act, 1964 PA 183, as amended
- Annual budget boilerplate in the Departments of Technology, Management, and Budget and Treasury also governs the capital outlay process

Key Budget Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2025-26 is October 1, 2025 through September 30, 2026.

Appropriation: Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the legislature.

Line Item: Specific appropriation amount that establishes spending authorization for a particular program or function in a budget bill.

Boilerplate: Specific language sections in a budget bill that direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

Lapses: Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

Joint Capital Outlay Subcommittee

Joint Capital Outlay Subcommittee (JCOS)

- JCOS is the only appropriations subcommittee that has duties and responsibilities defined in statute
- The Management and Budget Act, 1984 PA 431, as amended, outlines operational practices, procedures, duties and responsibilities of the executive and legislative branches and of state agencies and higher education institutions relative to the capital outlay process
- In addition, annual capital outlay appropriation acts, the General Government appropriations act, and formal policies of the JCOS provide procedural structure and approval requirements of capital outlay projects

Joint Capital Outlay Subcommittee (JCOS)

- JCOS includes 18 members – 9 from the House of Representatives and 9 from the Senate (based on rules of the current two-year cycle; number is subject to change with each new cycle)
- JCOS is chaired by each chamber on a two-year rotational basis; the Senate serves as chair for the 103rd Legislature
- 10 members constitute a quorum; each chamber must be represented by at least 5 members
- Approval of agenda items requires a "Yes" vote by a majority of the members serving
- At the beginning of each two-year cycle, JCOS adopts formal policies and procedures

JCOS Duties/Responsibilities

- Adopt formal subcommittee policies and procedures
- Review and evaluate state agency, university, and community college capital outlay project requests, including Michigan Natural Resources Trust Fund projects
- Provide project planning authorization through appropriation bills
- Approve/disapprove project program statements and schematic design planning documents
- Provide project construction authorization through appropriation bills
- Establish total authorized cost of projects and financing sources through appropriation bills
- Annually review outstanding obligations to the State Building Authority
- Approve/disapprove state agency requests to lease private space when annual base costs exceed $500,000

Capital Outlay Process

Capital Outlay Process

- Most capital outlay projects for state agencies, public universities and community colleges will go through the following steps:

Capital Outlay Action
1. Submission of annual five-year plan and priority project request
2. Review and evaluation of priority project requests by SBO
3. Approval of project planning authorization
4. Approval of project construction authorization
5. Project cost or scope changes (if necessary)

- Projects that do not advance to planning authorization can be resubmitted as a priority project request the following year
- Community colleges and universities may decide to advance a priority project using institutional funds and forego the capital outlay funding process

Capital Outlay Process

- **Submission of Five-Year Plans and Priority Project Requests**
  - State agencies, universities, and community colleges are required by the Management and Budget Act to annually submit five-year plans to the State Budget Office (SBO) and JCOS for review
  - Each plan must identify capital outlay needs, including new construction, or the addition, renovation, adaptive reuse, and improvement of existing facilities, and the need for special maintenance. The top project in the five-year plan is called the priority project
- **Review and Evaluation of Priority Project Requests**
  - Five-year plans/priority project requests are reviewed and evaluated by SBO/DTMB. SBO uses a formal scoring and ranking system for priority projects
  - Evaluation criteria include: investment in existing facilities and infrastructure, life and safety deficiencies, occupancy and utilization of existing facilities, sustainable design and efficiencies, estimated cost, institutional support, operating costs, impact on tuition, impact on job creation in Michigan, and history of state appropriations to the institutions through the capital outlay process
  - Governor recommends which priority project requests move forward and includes proposed planning authorization in executive budget recommendation
  - JCOS and legislature review governor's budget and make any changes deemed appropriate

Capital Outlay Process

- **Planning Authorization**
  - Approved planning authorizations appear as $100 line-item appropriations in a budget bill, establish the account, and allow the university or community college to proceed with professionally developed program and schematic planning documents
  - Planning documents provide the project's purpose, scope, and estimated cost
  - All planning costs are paid by the higher education institution and count towards their project match requirement
  - Standard match rate for SBA-financed projects is 25% from university funds and 50% from community college funds (state share is currently capped at $30.0 million)
- **Review and Approval of Planning Documents**
  - Program and schematic planning documents for the project must be submitted to DTMB for review and approval and adjustments may be made by DTMB
  - Once approved by DTMB, documents are submitted to JCOS for their review and approval

Capital Outlay Process

- **Construction Authorization**
  - Projects with planning authorization have 24 months from the end of the fiscal year in which authorization was obtained to receive construction authorization
  - Enactment of construction authorizations allows projects to move to the next phase
  - Approved construction authorizations appear as $100 line-item appropriations in a budget bill
  - Authorization defines total project cost and financing shares to be paid by the state and the institution
- **Final Design/Bids for Construction**
  - Preliminary and final design documents must be submitted to and approved by DTMB
  - Final design plans are used by construction contractors to submit bids

Capital Outlay Process

- **Project Management**
  - Bids are managed by the universities and community colleges for their respective projects and by DTMB for state agencies
  - If a university or community college does not have the capability of managing their own project, they contract with a private vendor or with DTMB
  - Bid results are submitted to both DTMB and JCOS
  - Monthly progress reports are required on projects not managed by DTMB
  - Construction documents continue to be reviewed through the process by DTMB and SBA for program compliance
- **Financing Construction**
  - Institutions are required to spend their portion of the project cost before any state funds are released
  - Once the institution's share of project financing is exhausted, the state, through the SBA, finances the balance of the project first by issuing short-term commercial paper financing, and then through the sale of long-term bonds

Capital Outlay Process

- **Project Cost and Scope Changes**
  - The cost and scope of approved projects are locked once construction authorization has been granted
  - Institutions that need to revise either the cost or scope of a project must submit a request to the State Budget Office, which will evaluate and make a recommendation to the Chair and Vice-Chair of JCOS
  - Cost and scope changes must be made through an appropriations bill
  - Cost increases are typically covered by the institution

Capital Outlay Process

- During the 2012 calendar year, the capital outlay process was revised; Public Acts 519 and 430 of 2012 amended the State Building Authority Act and the Management and Budget Act, respectively, to streamline the process
- Major revisions to the process included:
  - Planning authorization, construction authorization, and SBA financing were three separate legislative actions; now construction authorization and SBA financing are done in the same step
  - SBA financing was done through concurrent resolutions; now SBA financing is done through an appropriations act
  - New requirement that construction contracts be awarded to the “responsive and responsible best value” bidders
  - Capital outlay project requests are now reviewed and evaluated by DTMB/State Budget Office and the Chair and Vice-Chair of JCOS based on specified evaluation criteria
  - Annual SBA rent (debt service) payments are required to be appropriated when projects are authorized for construction
  - The duration of planning authorizations was revised from 36 months to 24 months

Capital Outlay Process Legislative Action/Appropriation Impact

Legislative Action	Appropriation Impact
Planning Authorization	$100 GF/GP placeholder
Construction Authorization	$100 GF/GP placeholder; appropriations for projected annual SBA rent payments associated with the projects that are authorized (GF/GP funding)
Annual General Government (DTMB) Budget Bill	Cumulative annual SBA rent amount (GF/GP funding)
Cost and Scope Changes	Changes are made through boilerplate sections

State Building Authority

State Building Authority

- Created by Public Act 183 of 1964
- Governed by 5-member board of trustees appointed by the governor (with Senate consent)
- Purpose of the SBA is to construct, acquire, improve, enlarge, and lease facilities for use by the state, a university, or a community college
- Issues tax-exempt debt to finance major building projects
- Carries its own bond rating, but the state's general obligation debt bond rating is factored in
- SBA debt obligations are not backed by the "full faith and credit" of the state
- By statute, SBA is limited to how much debt can be outstanding at any one time; currently set at **$2.7 billion**

History of State Building Authority Bond Limits

As needed, the legislature has enacted legislation to raise the bond cap to accommodate new capital outlay project authorizations. After doubling the bond cap between 1985 and 1987, the bond cap was doubled again between 1987 and 1997.

Public Act	Amount (millions)
1964 PA 183	$400.0
1985 PA 206	$775.0
1987 PA 119	$1,350.0
1993 PA 35	$2,000.0
1997 PA 127	$2,700.0

SBA Bond Capacity Status

Current Bond Capacity Status			
Authorized Bonding Cap ($ millions)	$2,700.0		
Less: Net Charges for Prior Bond Issues*	(9,067.6)		
Renewed Capacity	6,658.8		
Subtotal	$291.2		
Less: Current Commercial Paper Projects	(30.0)		
Estimated Bond Cap @ 10/15/2025	**$261.2**		
Projected Future Bond Capacity Status	**FY 2026**	**FY 2027**	**FY 2028**
Available Bond Capacity	$261.2	$288.5	$180.0
Future Projects**	(2.4)	(176.3)	0.0
Renewed Capacity	29.7	67.8	88.9
Capacity Carry Forward	**$288.5**	**$180.0**	**$268.9**
Less: Planning Projects	259.4		
Remaining Capacity	**$29.1**		

*Does not include debt related to cost of issuance and accounts for $421.3 million cap reduction due to the advance refunding impact of the Tax Cut and Jobs Act of 2017
**Planning projects are not included in this category

Source: State Building Authority

Capital Outlay Financing

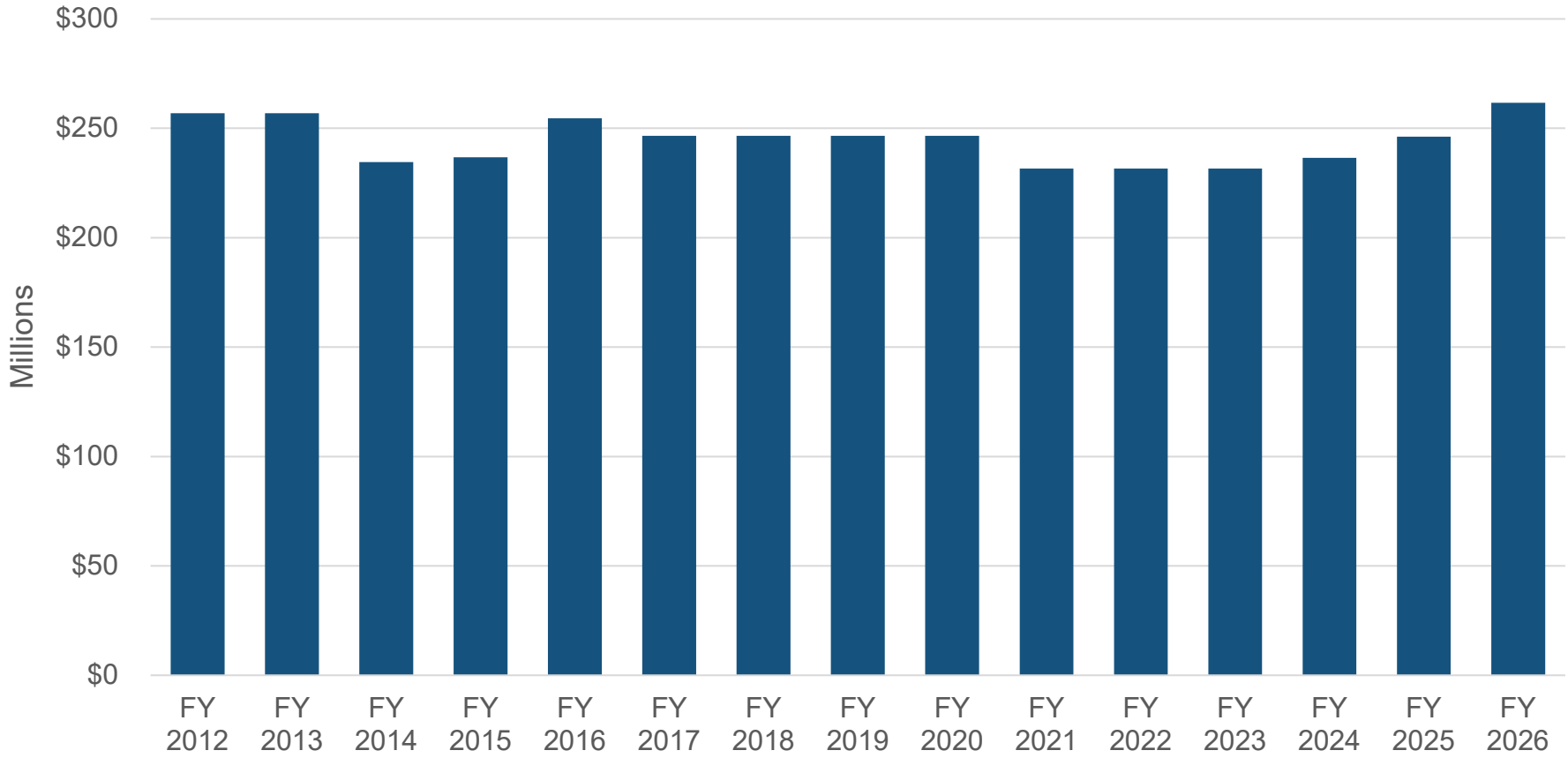
Capital Outlay Financing

Capital outlay construction projects can be funded in two ways:

- **Bonding**
  - SBA issues short-term (commercial paper) and long-term (bonds and notes) debt
  - Legislature commits to appropriating annual rent until SBA debt obligations are satisfied
  - Actual trend of rent payments depends on how many new projects receive planning or construction authorization, whether current bond cap remains the same, and conditions of general construction and bond markets
  - Several projects are usually bundled together into one single bond issue
- **Pay-As-You-Go**
  - Appropriations are made to either meet project costs as they come due or to finance entire projects with lump-sum cash payments upon completion
  - This method occurs mostly for smaller routine maintenance and remodeling types of projects, although has been used in FY 2022-23 for larger projects

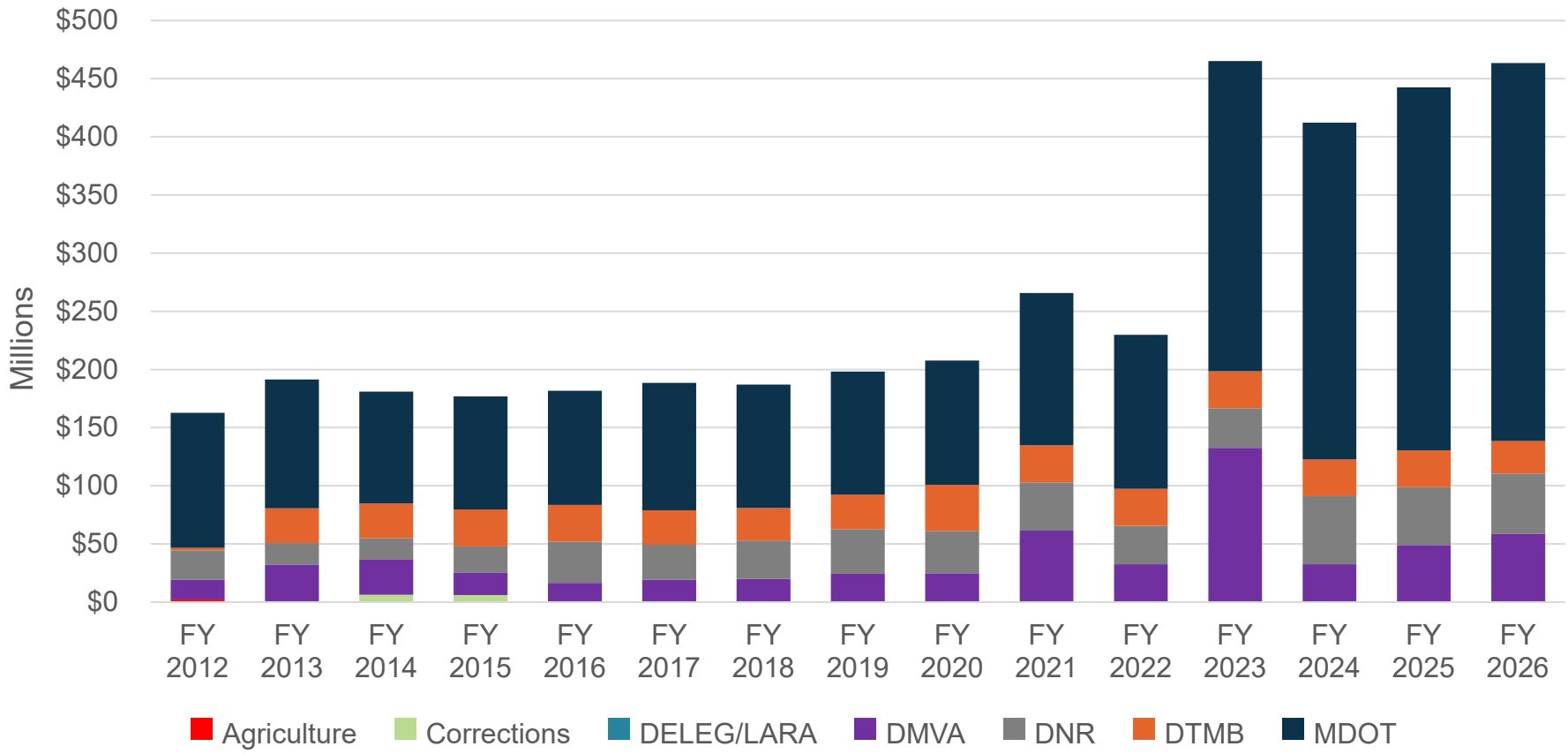
State Building Authority Rent Payments

SBA rent payments cover debt service on SBA-issued bonds covering the state share of legislatively-approved capital outlay projects for state agencies, universities, and community colleges. SBA rent payments are expected to increase in future years as newly-approved projects require debt service payments. Potential new debt service for approved construction authorizations is estimated to be **$15.7 million** annually.



Pay-As-You-Go Appropriations

Appropriations for regular maintenance, remodeling, repair, and additions in state agencies are included in individual budgets. Historically, direct capital outlay appropriations have been made in Agriculture, Corrections, DELEG/LARA, Military and Veterans Affairs, Natural Resources, DTMB, and Transportation. Agriculture, Corrections, and DELEG/LARA have had no pay-as-you-go capital outlay appropriations since FY 2014-15.



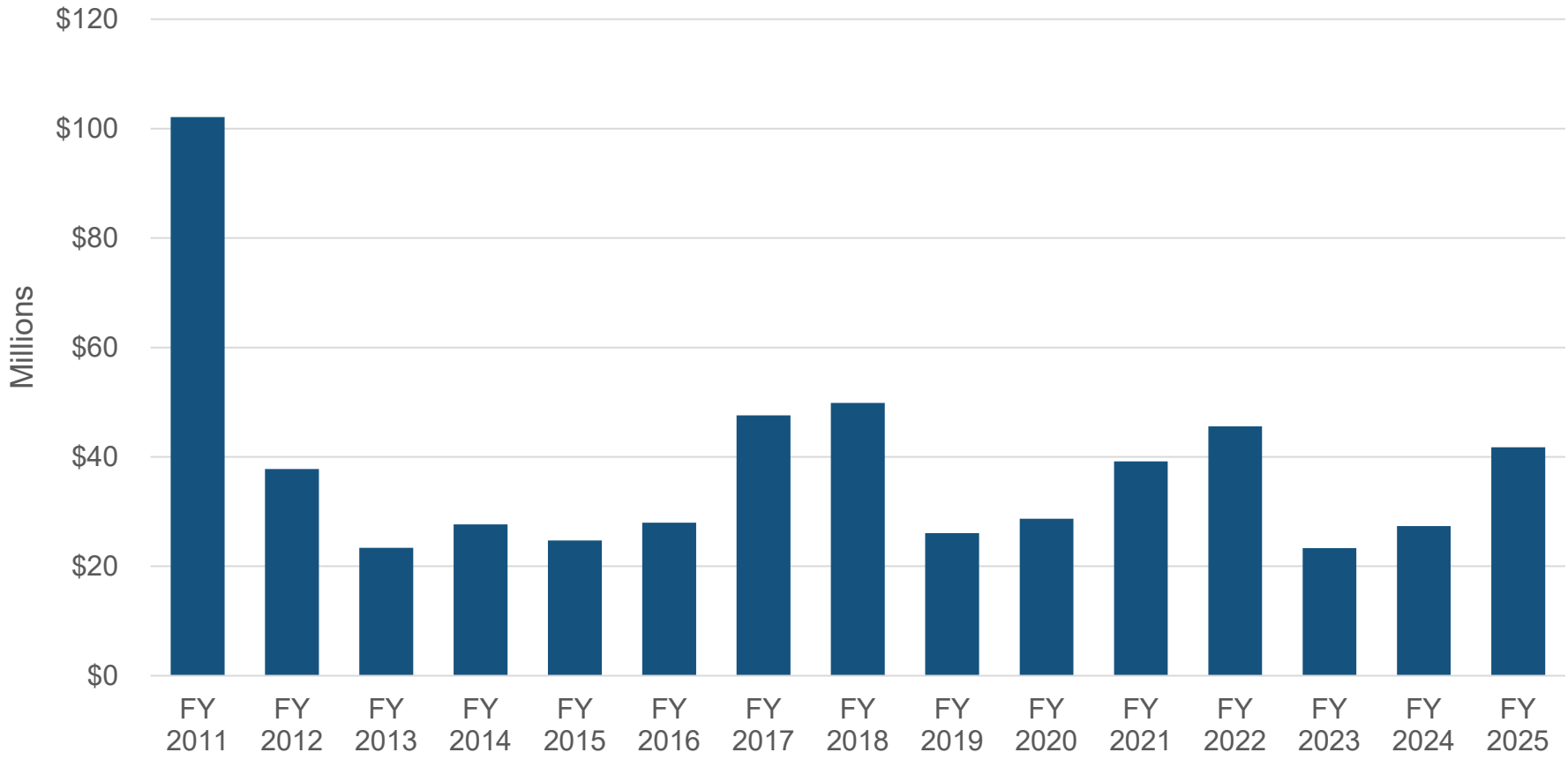
Capital Outlay Projects

State Agency Projects

- Michigan Natural Resources Trust Fund acquisition and development projects
- State agency bonded capital projects
- State agency program areas receiving annual appropriations include:
  - State parks and state harbor maintenance
  - Maintenance of state docks and boating facilities
  - Michigan Department of Transportation facilities
  - Airport safety and protection (i.e., new terminals and runways, buying snow removal equipment, airport access, and passenger, employee, and baggage screening)
  - Special maintenance for state agencies (i.e., mechanical, electrical, structural, and other upkeep at state-owned facilities)
  - Farmland and open space development acquisition

Michigan Natural Resources Trust Fund (MNRTF) Appropriation History

Appropriations from the MNRTF are provided for land acquisition and development projects recommended by the MNRTF Board. Appropriations are used for the purchase and development of lands for public outdoor recreation and for protection of natural resources and open space. The MNRTF is supported with revenues from state-owned oil and gas mineral resources. Recent statutory changes increased the available funds calculation.



Note: FY 2010-11 contains one-time revenue from the record-breaking oil and gas lease auction held by the state in May 2010.

State Agency Bonded Projects – Planning Authorizations

- Since FY 1992-93, a total of **$2,867.6 million** has been dedicated to state agency bonded capital outlay projects
- One state agency has a project with planning authorization (approved in 2024 PA 121) awaiting construction authorization. This project has a total state share of **$25.0 million**, which would result in an annual debt service payment of approximately **$1.9** million for 17 years.

State Agency	Total Cost	State Share
Michigan State Capitol Commission – Park Michigan	$25,000,000	$25,000,000
TOTAL	**$25,000,000**	**$25,000,000**

- For a list of state agency projects with construction authorization, click here

University and Community College Projects

- Since FY 1991-92, the legislature has authorized 219 SBA-funded projects for higher education institutions
- 115 projects for universities; 117 projects for community colleges
- Authorizations exceed **$5.7 billion**; the SBA share is approximately **$3.4 billion**; and the institutions' share exceeds **$2.3 billion**
- Typically, universities finance **25%** of a project's cost and community colleges finance **50%**. The Governor and legislature have capped the state match at **$30.0 million**

State Support for Capital Outlay Projects at Universities – FY 1992 to Present

University	State Support
Michigan State	$330,371,100
U of M – Ann Arbor	270,000,000
Western Michigan	225,160,600
Wayne State	220,695,000
Grand Valley State	216,525,000
Oakland	205,762,000
Central Michigan	186,195,000
Saginaw Valley State	163,850,000
Ferris State	163,675,000
Eastern Michigan	161,132,700
U of M – Dearborn	150,425,000
Northern Michigan	140,881,200
Michigan Tech	123,450,000
U of M – Flint	111,819,700
Lake Superior State	57,830,800
TOTAL	**$2,727,773,100**

Note: Table includes projects that have received planning or construction authorization

State Support for Capital Outlay Projects at Community Colleges – FY 1992 to Present

Community College	State Support		Community College	State Support
Macomb	$65,668,900		Lake Michigan	$16,757,900
Kalamazoo Valley	55,194,000		Southwestern	16,720,000
Delta	50,509,700		Alpena	15,380,000
Grand Rapids	46,207,600		North Central	12,581,700
Mott	41,403,600		Bay de Noc	11,919,300
Henry Ford	35,726,400		Kellogg	11,650,000
Monroe County	33,882,200		Montcalm	11,416,700
Schoolcraft	32,311,900		West Shore	10,619,000
Lansing	27,760,000		St. Clair County	9,400,000
Jackson	27,550,000		Glen Oaks	7,376,500
Wayne County	26,782,100		Kirtland	7,169,500
Washtenaw	25,900,000		Oakland	5,250,000
Northwestern	25,423,200		Gogebic	3,150,000
Muskegon	22,440,800			
Mid Michigan	22,097,300		**TOTAL**	**$678,248,300**

Note: Table includes projects that have received planning or construction authorization

Outstanding Planning Authorizations – Universities

Seven universities have projects with planning authorizations (approved in 2023 PA 321) awaiting construction authorization. These projects have a total state share of **$170.9 million** which would result in annual debt service payments of approximately **$12.8 million** for 17 years.

University	Total Cost	State Share	College Share
Eastern Michigan – College of Engineering & Technology Complex – Phase II – Roosevelt Hall	$42,500,000	$30,000,000	$12,500,000
Grand Valley State – Blue Dot Lab	140,000,000	30,000,000	110,000,000
Northern Michigan – Northern Enterprise Center (College of Business)	19,100,000	13,370,000	5,730,000
Oakland – Science Complex Renovation Project	40,000,000	30,000,000	10,000,000
Saginaw Valley State – Lake Huron Environmental Sciences Research Station	10,000,000	7,500,000	2,500,000
UM Flint – Innovation and Technology Complex	40,000,000	30,000,000	10,000,000
Wayne State – Wayne Law Classroom Building	40,000,000	30,000,000	10,000,000
TOTAL	**$331,600,000**	**$170,870,000**	**$160,730,000**

For a list of university projects with construction authorizations, click here

Outstanding Planning Authorizations – Community Colleges

Five community colleges have projects with planning authorizations (approved in 2023 PA 321 and 2024 PA 121) awaiting construction authorization. The projects have a total state share of **$63.5 million** which would result in annual debt service payments of approximately **$4.8 million** for 17 years.

Community College	Total Cost	State Share	College Share
Bay de Noc – Manufacturing Hub and Safety Training Center	$1,875,000	$937,500	$937,500
Kalamazoo Valley – Automotive Technology/Advanced Manufacturing Wing	39,000,000	19,500,000	19,500,000
Macomb – Mobility and Sustainability Education Center	58,554,100	26,349,300	32,204,800
Monroe County – Welch Health Education Building Renovation and Addition	21,864,400	10,932,200	10,932,200
Wayne County – Center for Virtual Learning and Digital Careers	11,564,200	5,782,100	5,782,100
TOTAL	**$132,857,700**	**$63,501,100**	**$69,356,600**

For a list of community colleges projects with construction authorizations, click here

Major Budget Topics

Major Long-Term Capital Outlay Issues

- Prioritizing project requests through a consistent evaluation process. While the executive branch follows an annual formal scoring process that is released in February, the legislature uses its own project evaluation and selection process
- Weighing the awarding of project planning and construction authorization against the remaining SBA bond capacity and the state's ability to appropriate General Fund dollars for rent payments (debt service) to the SBA in future years
- Balancing the need for financing new capital outlay projects against the need for financing regular and special maintenance projects for existing facilities

For more information about the Capital Outlay budget:

HFA Resources

http://www.house.michigan.gov/hfa/CapitalOutlay.asp

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