

Common Sense Government Initiative: Phase One: Capital

Background: The Office of State Budget and Management (OSBM) is seeking ways to reduce the number of transactions that require little value and add time to the capital process. OSBM reviewed the allotment and revision procedures for capital projects as a part of this process to seek ways for efficiencies. The result is a method that will hopefully reduce allotments and revisions for cash (General Fund and receipt supported) capital projects.

Application: The following guidance applies to:

- State Agencies and Universities General Fund Supported Projects
- State Agencies Receipt-Supported Projects

The following guidance **does not** apply to the following:

- General Fund Debt-Supported Projects (Connect NC, Limited Obligation Bonds, Certificates of Participation)
- University of North Carolina Receipt-Supported Projects

New Policy: OSBM is moving to allot projects based on broad budget categories. The goal of this policy is to do the following:

- **Manage Funds:** An allotment is the authority to expend funds. If a project, while in design, is found to not have sufficient funds to proceed to construction, it is prudent not to allot construction funds until the project does have sufficient funds.
- **Manage Overall Project Budgets and Budget Years:** OSBM is more concerned that project budgets are in balance and are expending within authority than if individual account line items are realigned or adjusted.
- **Comply with General Statutes and Session Law:** In many cases the General Assembly has directed aspects of this policy through session law or General Statute. For example, S.L. 2017-57, Sec. 36.6 requires that OSBM allot funds for equipment and furnishings prior to the commitment of funds. In another example, the General Assembly specifically mandated the hold back of escalation related reserves in S.L. 2015-280 with respect to Connect NC Bond projects.
- **Comply with the State Budget Manual:** The State Budget Manual already allows for reduced allotments based on broad categories.
- **Analyze Project Budgets:** Seeing a project budget upfront allows OSBM to identify problems before they arise. For example, projects may not expend funds for equipment or furnishings if they are funded from the Reserve for Repairs and Renovations (G.S. 143C-4-3).
- **Grant Agencies More Flexibility:** Revisions to allotments based on invoices and encumbrances within a fund is best handled by agencies without an extra layer of approval from OSBM.

Execution of New Policy: Upon receiving an appropriation (e.g., allocation from the Reserve for Repairs and Renovations, direct General Fund appropriation), agencies and universities should set up a project budget in IBIS via a budget revision using broad categories. The project budget may mirror an agency OC-25's (Certified Construction Cost Estimates provided by the Office of State Construction) or other campus/agency cost estimates if an OC-25 is not available. The budget should be set up using the following relevant categories:

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- Planning and Design
- Construction
- Equipment and Furnishings (if allowable)
- Reserves

Once each budget is set up, agencies may allot and revise budgets on the following schedule.

Allotment/Revision Schedule:

1. **Fund Code Established:** Agency/campus should set up the project fund code
2. **Budget Established via Revision:** Agency/campus should set up project budget through a budget revision
3. **Planning:** Agency/campus should request entire planning allotment.
4. **Contract Approval to Award:** Each agency/campus should request an allotment for the total construction amount once the project is ready to be awarded. If it is necessary to move reserves or other funds into the construction allotment (e.g., contract overages, bid alternates), the agency/campus may do so at this time.
5. **Furnishings/Equipment:** As the project concludes construction, the agency/campus should request funds for furnishings and equipment, if the project is allowed to expend funds for this purpose.
6. **Close Out:** Once project is completed the budget should be corrected, if necessary, and closed out (e.g., funds transferred to other projects, returned to original source).

Frequently Asked Questions:

What if my project does not require planning?

In some cases, the agency/campus budget may be too small for planning or may be an emergency project. These projects will not require a planning allotment. In these cases, communicate to your OSBM analyst so that they may address it.

Which Fiscal Years does this policy apply to?

This policy applies to all fiscal years and all projects as outlined above. If you have a prior years' project budget established, begin processing a Type 14 to realign funding (if needed) and submit allotments based on the status of project. For example, if the project is in the construction phase and you are currently submitting allotments as you receive invoices, submit one allotment to cover the entire remaining construction phase (holding back any funds for reserves).

Do broad accounts need to be in balance?

Ideally, it would be best if all planning expenditures aligned within the broad planning account. However, this may not be possible. This policy may result in individual line-items being out of balance on the BD725 which is acceptable as long as total expenditures for the fund do not exceed the total budget and total allotment.