

FASTFACTS

From the House Appropriations Committee

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

December 12, 2013



Frequently Asked Questions About the Capital Budget

The state's capital budget provides for more than \$1.6 billion in projects, supporting thousands of jobs across the commonwealth. For many of these important capital projects, the commonwealth issues debt to fund the projects, because they have a longer lifespan and will serve Pennsylvanians for many years.

The Pennsylvania constitution requires the General Assembly to adopt a capital budget each year.

Q: What is the capital budget?

The capital budget is the portion of the state budget that provides for:

- The construction, rehabilitation, renovation and improvement of facilities, including the acquisition of land and structures.
- The purchase of original furniture and equipment for newly constructed state-owned facilities.
- Capital projects related to mass transit, rural and intercity rail, air transportation and rail freight.
- Redevelopment assistance projects for economic development and elimination of blight.
- Flood control projects.
- Public highway and bridge projects.

The capital budget is separate from the various types of budget-related legislation dealing with agency operating budgets and non-preferred appropriations.

Capital budget projects can be built with current revenues or with bond proceeds. For many capital projects, the commonwealth issues debt to provide funding. Because these projects will serve Pennsylvanians over many years, debt allows the project cost to be spread out over the life of the asset. Public highways and bridges are notable exceptions to this thinking, which policymakers have predominately chosen to fund with the current revenues of the Motor License Fund.

The Pennsylvania constitution requires the General Assembly to adopt a capital budget each year.

Q: What types of projects can be funded from the capital budget?

In addition to fitting one of the eligible categories, projects must:

- Have a life of at least five years and an estimated cost of \$100,000 for bond-funded projects or \$300,000 for projects financed by current revenues.
- Have an estimated useful life equal to or greater than the maturity of the debt incurred, if bond financing is used, and have a scope large enough to justify incurring debt.
- Be specifically itemized in a capital project itemization bill passed by the General Assembly.

Q: What types of legislation routinely address the capital budget?

The capital budget act establishes the maximum amount of debt that **may** be issued during any given fiscal year for capital projects. This legislation is typically enacted annually along with other budget-related legislation.

The capital project itemization act lists individual projects that **may** be undertaken by the governor's administration. Capital project itemization bills are enacted every few years as needed.

Q: Who determines which projects are funded?

The General Assembly must authorize capital budget projects in a capital project itemization bill.

Once a project is itemized in law, the governor has the discretion to release funds for the project.

Because there are almost always many more projects itemized in law than there are available funds, the governor often has tremendous latitude in deciding which projects move forward.

Q: Who determines the amount and frequency of bond authorizations?

The annual capital budget act regulates the amount of capital budget debt that the commonwealth may incur in the current fiscal year.

Based on this authority, the commonwealth issues bonds and uses the proceeds to start new capital projects and **to continue projects already underway.**

Because many capital projects take several years from start to finish, bonds are issued only for the required costs in any particular fiscal year.

Thus, a typical project may receive funds from two or three bond issues over multiple fiscal years.

The lead-time required before a project is finally funded and the backlog of projects previously authorized makes the funding of a recently approved project unusual.

When preparing for a bond issuance, the Office of the Budget identifies the projects that need funding in the coming months to determine the size of issuance.

Along with the governor, either the state treasurer or the auditor general must approve the bond issuance.

Q: Where are bond proceeds deposited?

After issuance, the proceeds are deposited into the Capital Facilities Fund and await disbursement to the various contractors and vendors working on capital projects.

Q: Do bond proceeds cover only capital budget projects?

No. Bond issues also may include money for non-capital budget projects, like Growing Greener for environmental projects and Pennworks for water and sewer projects. These are voter-approved purposes and are separate from the capital budget. Bonds can also be issued for disaster relief, as was done following Hurricane Agnes in 1972 and the great flood of 1996.

House Appropriations Committee (D)

Miriam A. Fox, Executive Director

Eric Dice, Budget Analyst

Stephanie Weyant, Communications Director