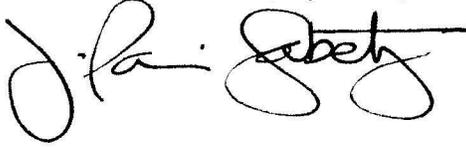




OBM

MEMORANDUM

To: Directors and Fiscal Officers of Departments, Agencies, Boards and Commissions

From: J. Pari Sabety, Director 

Date: November 14, 2007

Re: Capital Reappropriations for Fiscal Years 2009 and 2010

Attached to this memorandum is guidance describing how agencies are to prepare requests for capital reappropriations for Fiscal Years (FY) 2009 and 2010. Please review the guidance carefully and contact your OBM budget analyst should you have any questions.

Reappropriation of Previously Authorized Projects

As with previous capital reappropriations bills, the primary purpose of the bill is to reappropriate capital projects that were first appropriated in the current capital bill, Amended Substitute House Bill 699 (HB 699), or that were reappropriated in the current capital reappropriations bill, Amended Substitute House Bill 530 (HB 530), and that have not yet been completed. Several agencies (AIR, BOR, PWC, and SFC) also received new capital appropriations in either HB 530, Substitute Senate Bill 321 (SB 321), or Amended Substitute House Bill 119 (HB 119) that may also need to be reappropriated.

Reappropriation of Old Encumbrances

As part of the reappropriations process, you will also need to review your agency's old capital encumbrances (these are capital encumbrances that will be four years old or older on June 30, 2008). Based on this review, those older encumbrances that are no longer needed will be canceled. Those that are still needed must be reappropriated in the capital reappropriations bill or they will not be available to your agency after June 30, 2008. Sufficient justification for the reappropriation of these old encumbrances must be provided.

Redirection of Original Appropriation

In addition to reappropriating existing encumbrances, agencies have in the past used the reappropriations bill or the state Controlling Board process to redirect funding to other projects, perhaps because the original project was completed under budget or because of a shift in funding priorities. Recently the General Assembly has more closely scrutinized these redirections. OBM recognizes the legislature's additional interest in these items and will take this into consideration when developing the next reappropriations bill. As such, any agency requesting to redirect the balance of an original capital appropriation should be prepared to provide sufficient justification for such a request, including what factors should exempt it from the new capital request and funding process.

Timeline

In order to avoid a delay in funding for ongoing projects, OBM currently plans to prepare, introduce, and have the reappropriations bill enacted by the General Assembly prior to April 1,

2008, so that it will become effective July 1. To meet this timeline, a bill will have to be ready for introduction in early February 2008. Therefore, it is important that your staff works closely with OBM between now and mid-January so that all capital line items that need to be reappropriated are identified and included in the bill along with all necessary reappropriations-related language.

The general schedule for preparing the capital reappropriations bill is as follows:

November 14, 2007	Distribute capital reappropriations guidance to agencies
December 14, 2007	Agencies submit reappropriations requests to OBM
December to January	OBM reviews requests, resolves issues and drafts bill
February 2006	Reappropriations bill draft prepared by LSC for introduction

Attachments

Requesting Capital Reappropriations OBM Guidance to State Agencies for Fiscal Years 2009 and 2010

The process for requesting capital reappropriations for fiscal years 2009 and 2010 will essentially be the same as it has been for the last several biennia. Since capital appropriations are effective for only two years, appropriations that were not disbursed or encumbered at the end of the two-year period must be reappropriated or they will lapse and no longer be available.

There are four basic tasks that agencies need to do as part of the capital reappropriations process:

- 1) Identify which current capital ALIs (this includes current capital items from HB 699, HB 530, SB 321, and HB 119, as well as items created by the Controlling Board) need to be included in the capital reappropriations bill;
- 2) Estimate the amount to be reappropriated for each item;
- 3) Review a report, provided by OBM, of old capital encumbrances and indicate which encumbrances will be needed after June 30, 2008 and which will not; and
- 4) Review budget language associated with capital reappropriations and notify OBM of what language needs to be included and of what changes need to be made.

The deadline for submitting capital reappropriation information to OBM is Friday, December 14, 2007. Agencies will submit as many as three things to OBM:

- 1) A worksheet listing the items that need to be reappropriated and the estimated reappropriations amounts (all agencies need to submit this);
- 2) A completed report in Excel showing what should be done with old encumbrances (if an agency has any); and
- 3) Any reappropriations-related language that needs to be included in the bill.

The reappropriations process, the worksheet that all agencies must submit, the report for old encumbrances, and other related information are described in more detail in the following sections of the guidance. These sections cover the following seven topics:

- 1) What agencies need to have reappropriated and why;
- 2) What OBM will give agencies regarding reappropriations and what should be done with it;
- 3) A capital reappropriations spreadsheet and what to do with it;
- 4) A report containing old encumbrances and what to do with it;
- 5) Limits on what will be reappropriated;
- 6) Addressing community projects; and
- 7) Submission of budget correction language

Please read the guidance carefully. If you have any questions about it, please contact your OBM budget analyst.

SECTION 1
What Do Agencies
Need to
Reappropriate and
Why?

- ✓ **H.B. 699 items**
- ✓ **H.B. 530 items**
- ✓ **S.B. 321 items**
- ✓ **H.B. 119 items**
- ✓ **Capital items created by the Controlling Board**
- ✓ **Old Encumbrances**

Any appropriations made for capital projects in HB 699 (the current capital bill), HB 530 (the current capital reappropriations bill), SB 321 (the current tobacco budget bill), and HB 119 will expire on June 30, 2008.

Agencies should review the status of all capital items in these bills and items created by the Controlling Board from items in these bills. Agencies should request reappropriations for those items that will have available balances as of June 30, 2008, if those balances will be needed to complete the project.

Capital appropriations that will be disbursed or encumbered by June 30, 2008, do not need to be reappropriated.

In order for an item to be reappropriated, it must be in the reappropriations bill (there is an exception to this, which is described in the next paragraph). Therefore, agencies need to **make certain** that they identify all Appropriation Line Items (ALI) that need to be reappropriated and that these ALI are on the worksheet they return to OBM, which is described in Section 3 of the guidance.

The list of line items that appears in the reappropriations bill can only be complete through mid January, at best, since that is when the reappropriations bill will be prepared. Items that are created by the Controlling Board after January 15, 2008 and before June 30, 2008 that will need to be reappropriated can not and will not appear in the bill. **Agencies should keep a list of line items created during this period of time.** OBM will address those items that are created during the period after January 15, 2008 and before June 30, 2008, and that need to be reappropriated, by including language in the bill that reappropriates any items created by the Board after January 15 that are needed to complete the project.

Here is a summary of the important points in the previous two paragraphs:

- Any capital appropriation item that exists now or is created by the Controlling Board on or prior to January 15, 2008, must be in the reappropriations bill in order to be reappropriated.
- OBM analysts and their agencies will have to work together between December 14th, the date that reappropriations requests are due to OBM, and January 15, to keep each agency's list of items to be reappropriated up to date.
- Items created by the Controlling Board after January 15, 2008 and before June 30, 2008 will be reappropriated (if necessary) pursuant to language that OBM will include in the reappropriations bill. Agencies should maintain a list of these items so that OBM

and the agency can accurately determine the reappropriated items that will be set up in OAKS after July 1, 2008.

OBM and agencies also need to address the issue of old capital project encumbrances. There is no statutory limit to the life of capital encumbrances. However, as a matter of accounting policy, OBM reviews capital encumbrances every two years at the time the capital reappropriations bill is prepared. OBM recognizes that it often takes several years to complete all the financial transactions involved with a capital improvements project, so OBM does not ask agencies to review all capital encumbrances every two years. We only review those encumbrances that have been in place for four years or more. For the upcoming reappropriations bill, we will review all capital encumbrances (these are encumbered funds appropriated in previous capital bills) that will be four years old or older on June 30, 2008 (this means that the date of record in the state's accounting system for the encumbrances is FY 2004 or earlier. An agency's OBM budget analyst will provide a report listing these encumbrances. Agencies must identify which encumbrances are still needed and which are not. Those that are needed must be included in the reappropriations bill or they will be lost. Sufficient justification on why they are still needed must be shared with OBM. Those that are not needed will be canceled in June 2008 and the funds will lapse. More information on the old encumbrance review process is in Sections 2 and 4, below.

Agencies will also need to provide OBM with sufficient detail on any agency proposals to redirect old encumbrances to other projects, in lieu of letting these dollar amounts lapse.

SECTION 2
What will Agencies
Get From OBM to
Work With and
What Should They
Do With It?

Agencies will receive two things from OBM: (1) A worksheet showing the status of their capital appropriation line items as of October 31, 2007 (see example below); and (2) A report containing the status of old capital encumbrances as of October 31, 2007 (only agencies with old encumbrances will receive the encumbrance report). What agencies should do with the spreadsheet and the encumbrance report is described below in Sections 3 and 4.

- ✓ **Spreadsheet**
- ✓ **Encumbrance Report**