



OSBM's Role in Capital Budget Process

House Appropriations Committee on Capital and Information Technology

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Agenda

- Capital Budget and Availability and OSBM's Role
- State Capital and Infrastructure Fund
- Flexibility Funds



Capital Budgeting in North Carolina: Capital Projects

- *What is it:* Building or Land Acquisition, Construction, or Renovation over \$100,000 in value
- *When can you begin it:* No agency can begin a capital project unless it is to comply with the State Budget Act or is otherwise authorized by the General Assembly
 - Exceptions: University of North Carolina and National Guard receipt supported projects; and, emergencies



Capital Budgeting in North Carolina: Applicability

Applies To

- State Agencies
- University of North Carolina System

Does Not Apply To*

- K-12 Facilities
- Community Colleges
- Local Infrastructure

*General Assembly can choose to fund with capital funds



Capital Budgeting in North Carolina: Financing (Does not include DOT)

- General Funds – Last appropriated in 2018
- State Capital and Infrastructure Fund – Replaced General Funds (Appropriated in FY 2021)
- Receipts
- General Obligation Bonds – Last Authorized in 2016
 - Full Faith and Credit Pledge, Vote of the People
 - Outstanding: \$1.6 Billion
- Two Thirds Bonds – Last Authorized in 2014
 - Full faith and Credit Pledge, with limit of 2/3rds repayment of prior biennium GO Bond, no vote of the people

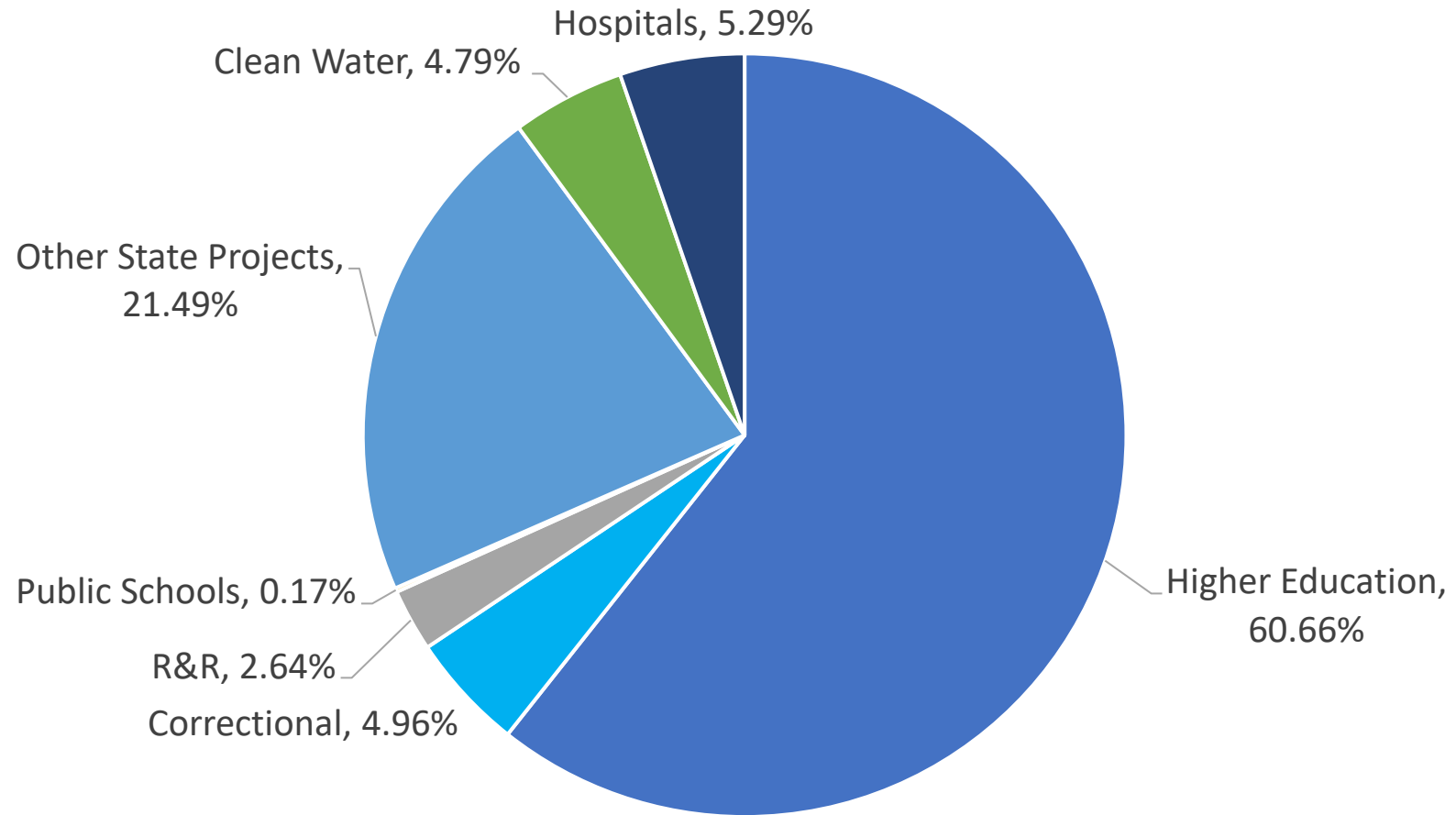


Capital Budgeting in North Carolina: Financing (Does not include DOT)

- Special Indebtedness – Last Authorized in 2009
 - Appropriations Backed Debt
 - Outstanding \$831 million
- Certificates of Participation – Last Authorized 2003
 - Backed by a pledge of State Asset
 - None Outstanding
- Self Liquidating/Revenue Bonds – Last Authorized in 2024
 - Generally specific to University of North Carolina
- Performance Contracting/Guaranteed Energy Savings Contracts (\$500 million cap)
 - Outstanding \$133.1 million
- Public Private Partnerships – None authorized currently



Outstanding Debt By Use (Does not Include DOT)





Debt Availability

Debt Affordability Advisory Committee Provides Guidance on Debt Capacity for the State

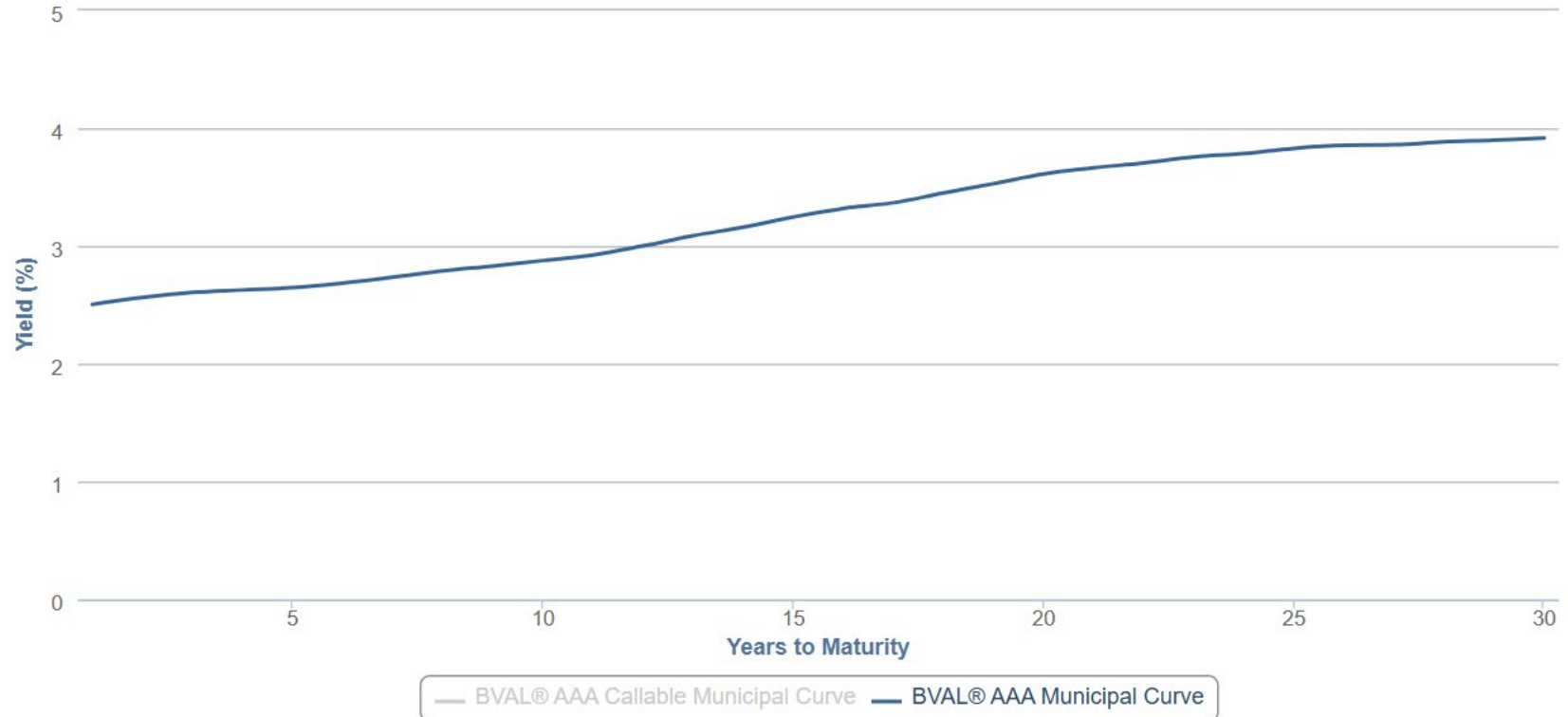
Maintain AAA Credit Rating and prudent debt levels

Fiscal Year	2025	2026	2027	2028	2029
\$ to Unfunded Liabilities	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
Total Additional Debt Capacity per Year *	\$9,963.7	\$168.4	\$239.9	\$775.3	\$943.3
Debt Capacity Available each and every Year	\$1,766.0	\$1,766.0	\$1,766.0	\$1,766.0	\$1,766.0

* In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year.



Yield Curve for AAA Debt (3.5.2025)



Current STIF
Rate: 4.61%

Source: Electronic Municipal Market Access, Municipal Securities Rule Making Standards Board



Capital Budget Process: OSBM Development

- Agencies develop a six-year capital needs estimate for new capital and repair and renovations every two years
 - University of North Carolina System develops separately and submit to both General Assembly and Governor
 - Previous Biennium Plan Here: [FY 2023-25 Capital Improvement Plan](#)
- Governor develops a six-year capital improvement plan
- Governor's Biennial Budget recommends the first two years of the plan to submit to the General Assembly
- General Assembly adopts a capital budget as part of the Appropriations Act.



Capital Budget Process: OSBM Execution

- Monitors Existing Project Budgets for Changes and Cash Flow
- Distributes Repair and Renovation Funds
- Allots Funds to Projects, Subject to Availability
- Administers Flexibility Funds
- Participates in Bond Issuance, Ratings, and Tax Compliance
- Approves Project Contracts for Fund Availability

State Capital and Infrastructure Fund



State Capital and Infrastructure Fund

- The State Capital and Infrastructure Fund (SCIF) was authorized in FY 2018, to be fully implemented in FY 2019.
- Fully Implemented in FY 2022 after the FY 2019-21 budget was vetoed
- The original SCIF was to receive an appropriation equal to 4% of General Fund revenue every year (FY 2023 would be \$1.5 Billion)
 - Based off Debt Affordability Guidelines for issuing debt
- FY 2022 changed the appropriation to \$1.3 billion, with set amounts until FY 2025, and then a 3.5% increase.



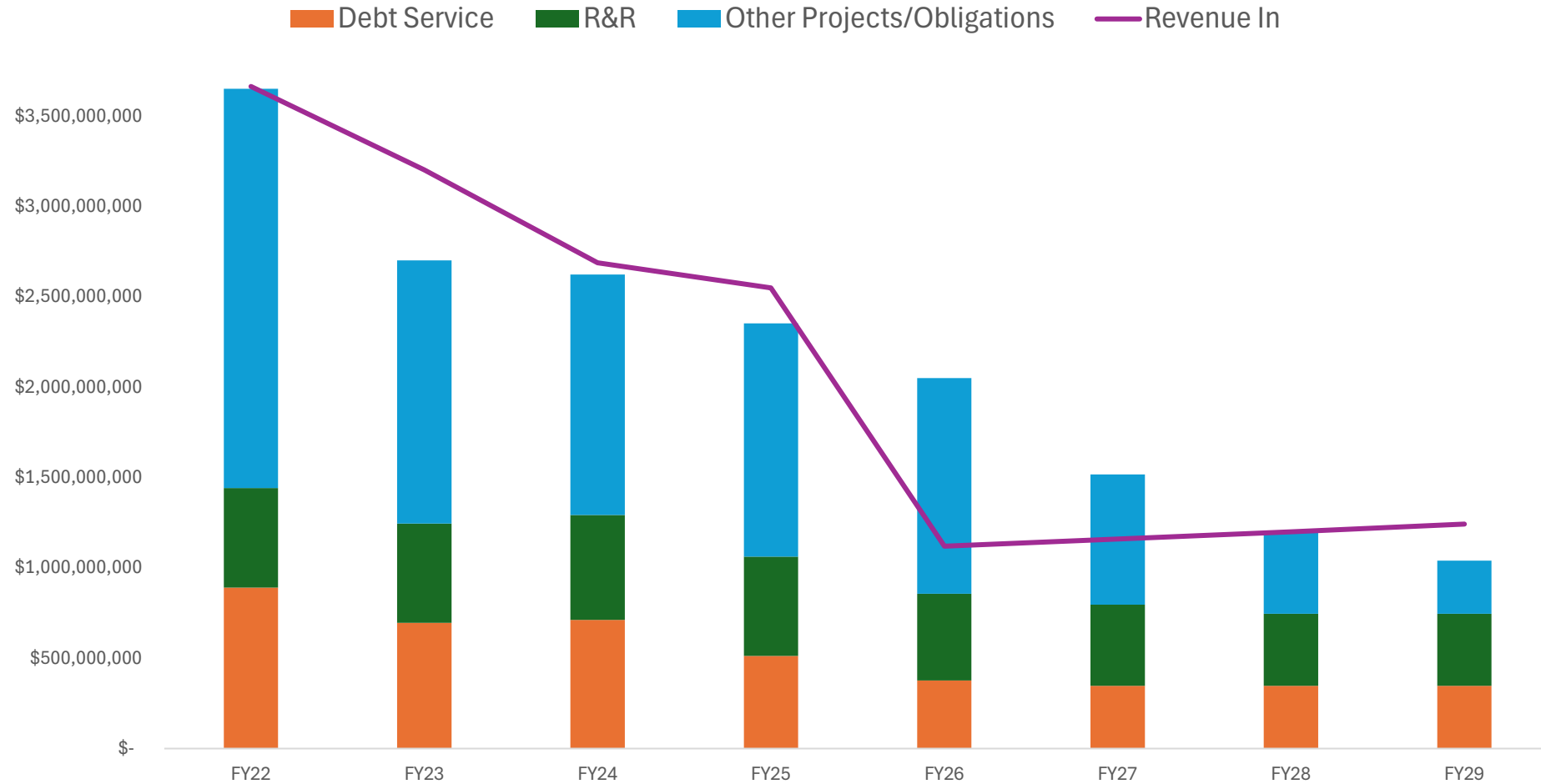
State Capital and Infrastructure Fund

The purpose of the SCIF is to fund the following:

- General Fund Supported Debt Service
- State Agency and University Capital Projects – Movement toward total cash funding for all projects, regardless of cost or type
- Broadband Projects
- Capital Related Personnel
- Projects and Grants identified in the Appropriations Act



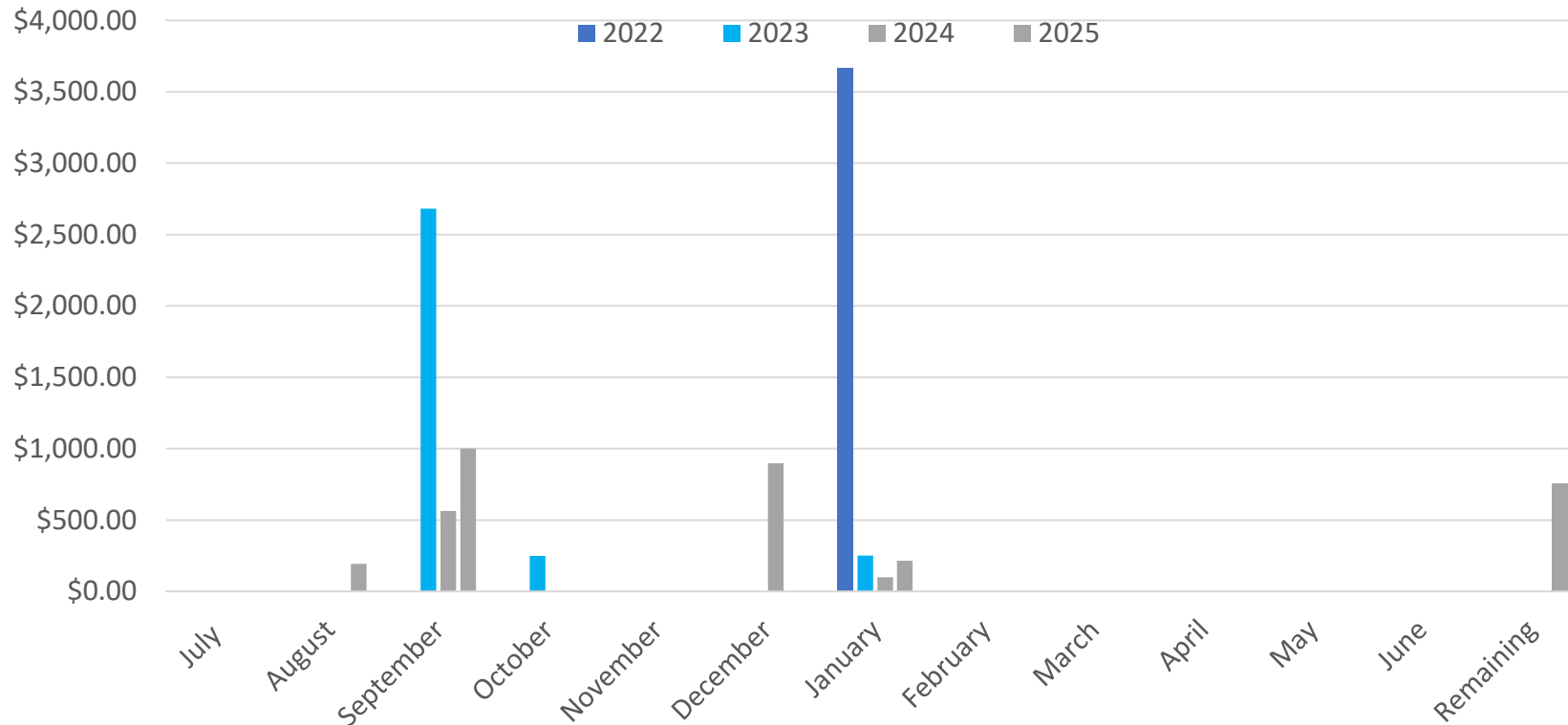
State Capital and Infrastructure Fund Availability





Transfers of Funds Into the SCIF (Millions of Dollars)

- Transfers of General Funds into the SCIF are made subject to availability pursuant to S.L. 2023-134, Sec. 2.2(t) to be completed by the end of the Fiscal Year.



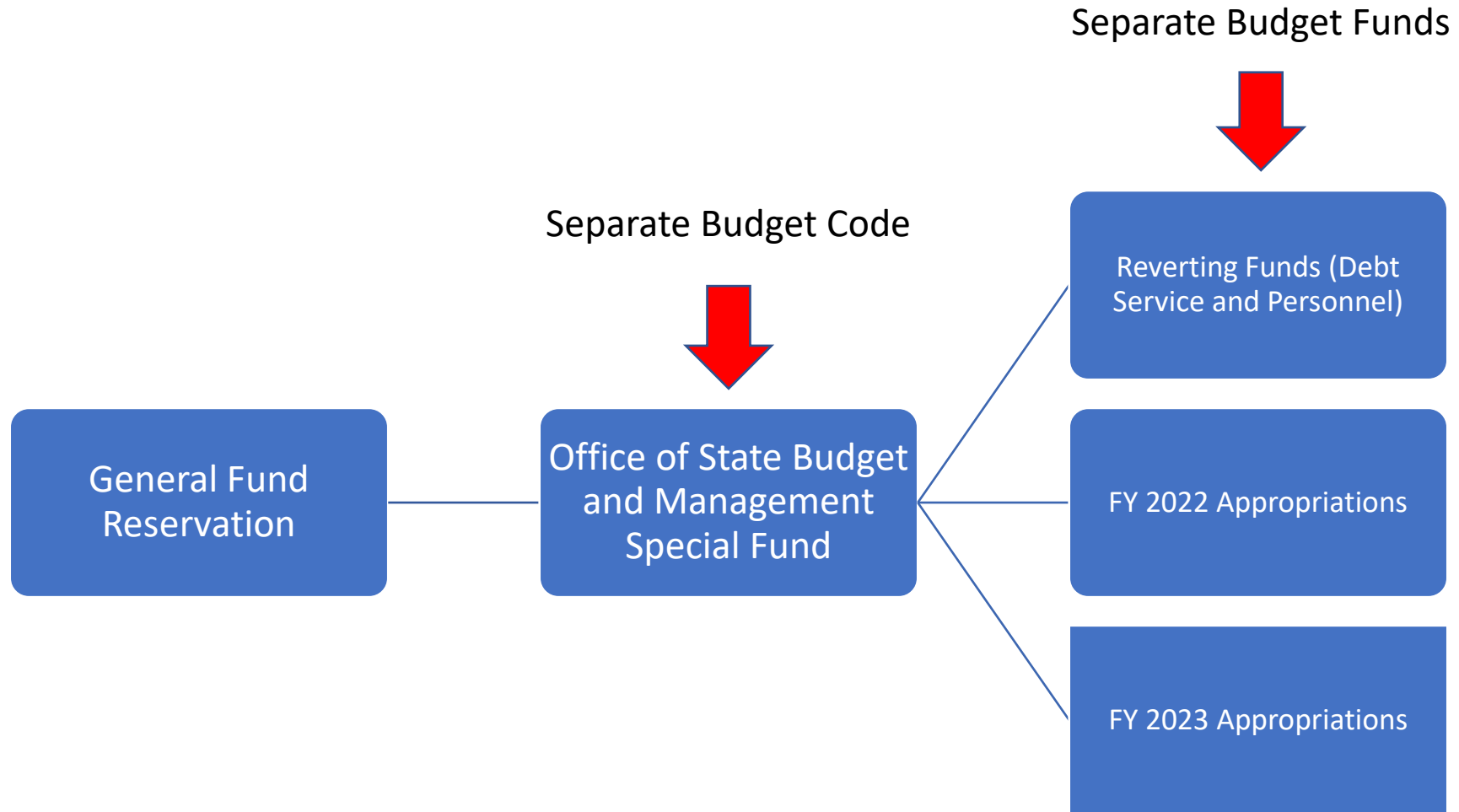


SCIF Reserve

- The SCIF Reserve consists of the following:
 - Reversions at the end of the year from operating and debt service
 - Interest Income
 - Transfers into the reserve directed by the General Assembly
 - Projects that have completed with additional availability
 - Reserve Balance (3/5/2025): \$1.0 Billion

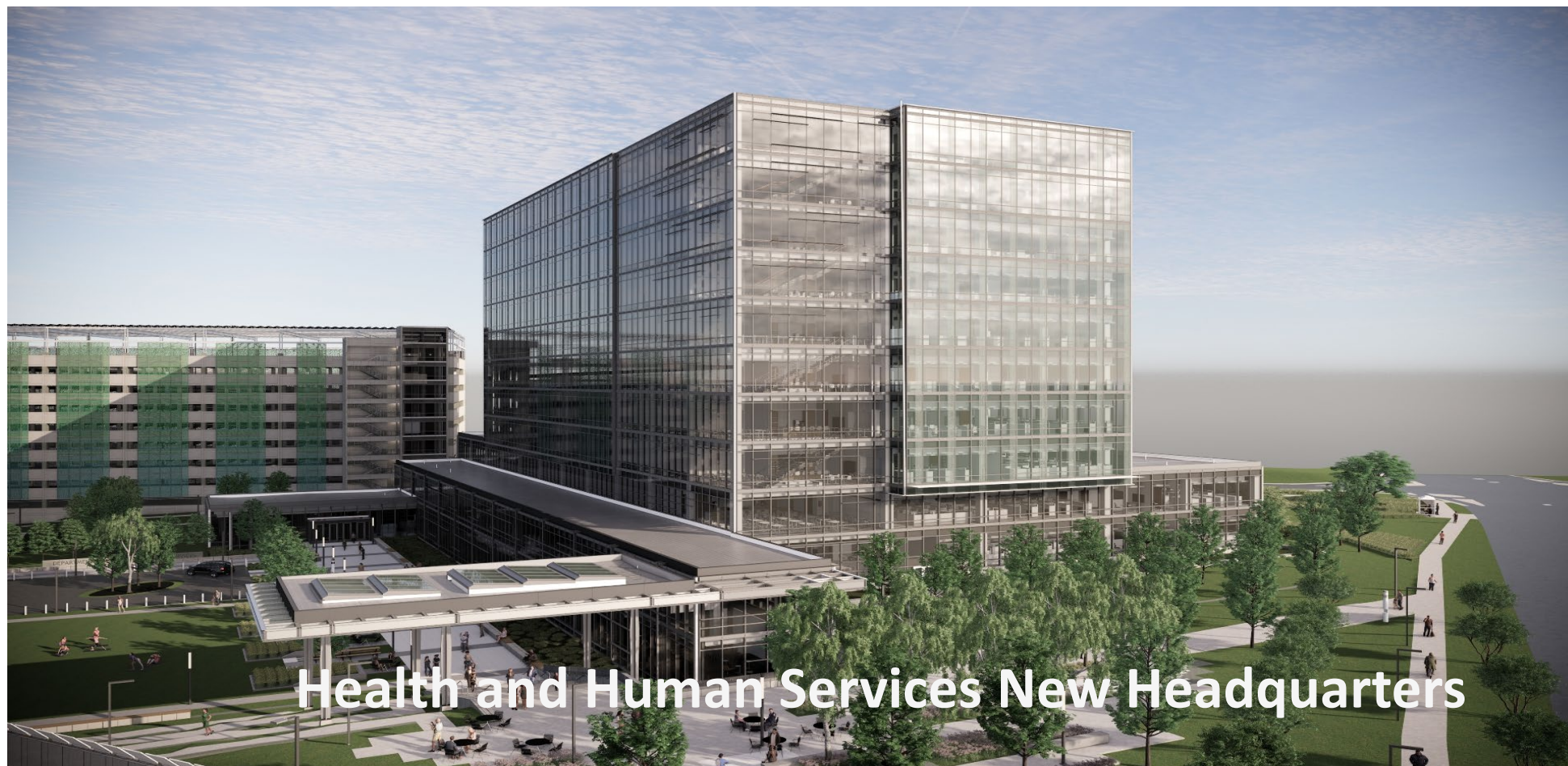


State Capital and Infrastructure Fund Process: OSBM Side





State Capital and Infrastructure Fund: Agency Example





State Capital and Infrastructure Fund: Agency Side

Department of Health and Human Services Relocation: Total Budget \$268 million

FY 2020 \$15 Million

FY 2022 \$50 Million

FY 2023 \$60.5 Million

FY 2024: \$78 Million

FY 2025: \$64.5 Million

Managing Cash Availability

- Contract awards are for all available funds: Appropriated and Intended
- Agencies and Campuses must submit expected cash flow schedules for projects over \$3 million and are subject to quarterly allotments to manage cash into and out of the SCIF and maximize interest to the SCIF
- Funding years are kept separate to avoid expending unappropriated funds
- Agencies and Campuses running ahead of their annual appropriation may take funds from other projects, such that the total project authorization and annual SCIF appropriation does not change.

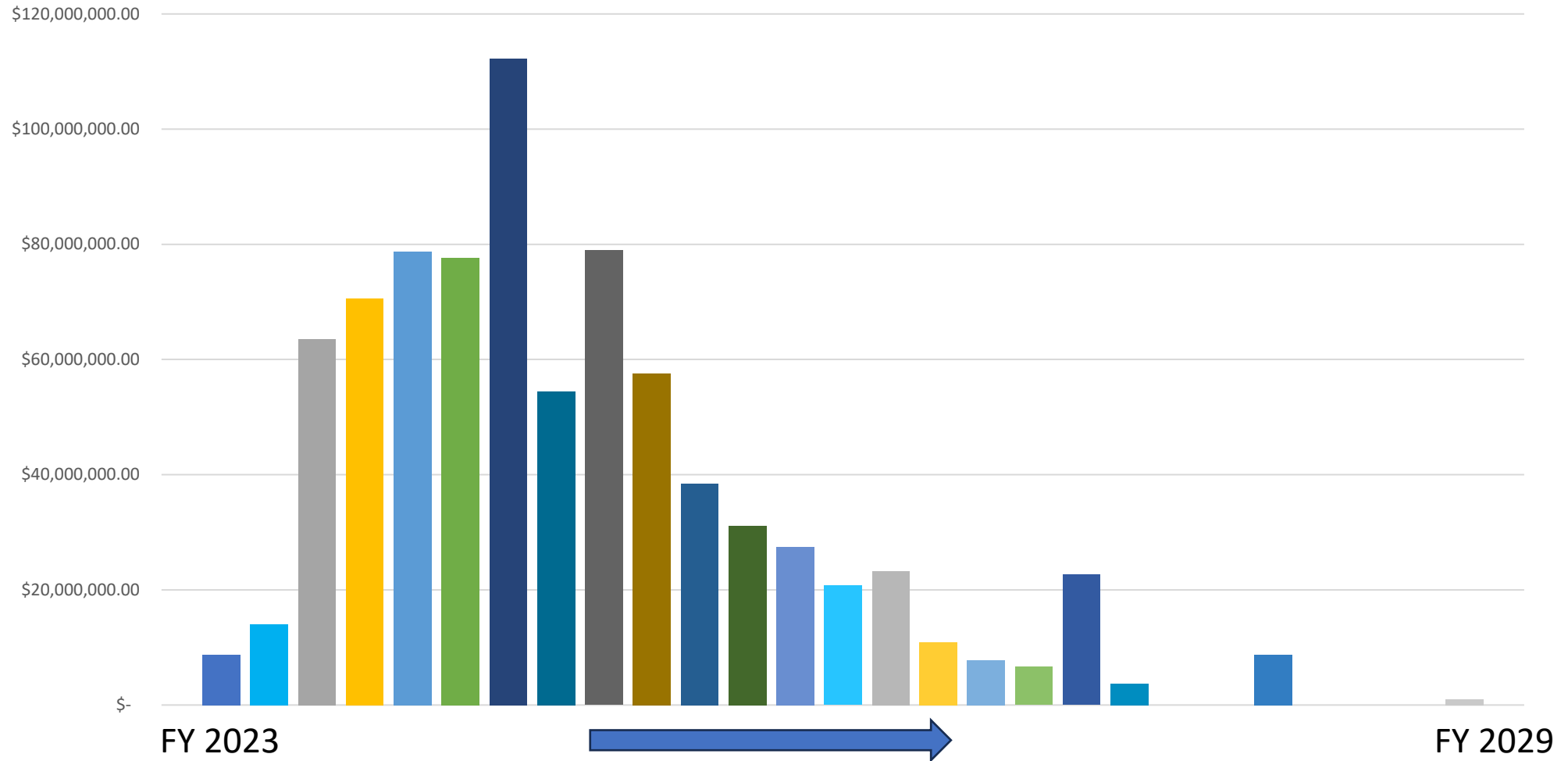


SCIF Allotment Process

- OSBM Requires Agency Projects over \$3 million in total to submit a quarterly cash flow analysis of expected expenditures.
- OSBM allots cash from the SCIF to the Agencies based on this cash flow
- OSBM cannot allot funds before the Fiscal Year they are appropriated
- Goal is to maintain cash in the SCIF for interest earning, reduce transactions, and monitor SCIF cash availability



Current State Agency Allotment Projections (FY 2023-FY 2029):





Allotment Projection Issues

- Cash flows are not developed until the project begins spending
- Cash flows are difficult to maintain
- Some agencies have reverted to allotment by invoice due to technical issues
- Cash Flow does not include non-capital items such as grants or agency operating transfers, many of which require immediate payouts
- Process continues to evolve

Flexibility Fund



Office of State Budget and Management Flexibility Fund

General Assembly appropriated \$175 million over three years into a fund within the SCIF as “Flexibility Funds.”

- Funds can be used to increase SCIF funded “named project” authorizations by up to 10%.
- Office of State Budget and Management manages the allocation of funds on an as needed basis with input from the Office of State Construction
- OSBM has allocated \$103,980,700 to date



Office of State Budget and Management Flexibility Fund Process

- Project scope cannot be increased beyond what was approved by the General Assembly (tie to OC-25 from DOA)
- Project must at least be through the Schematic Design phase (Advance Planning)
- Designed to 90% of construction costs with 10% held back (90/10 rule)
- Provide evidence of value engineering or why such engineering is not possible
- Work with Dept. of Administration and University of North Carolina (for UNC Campuses) to evaluate requests

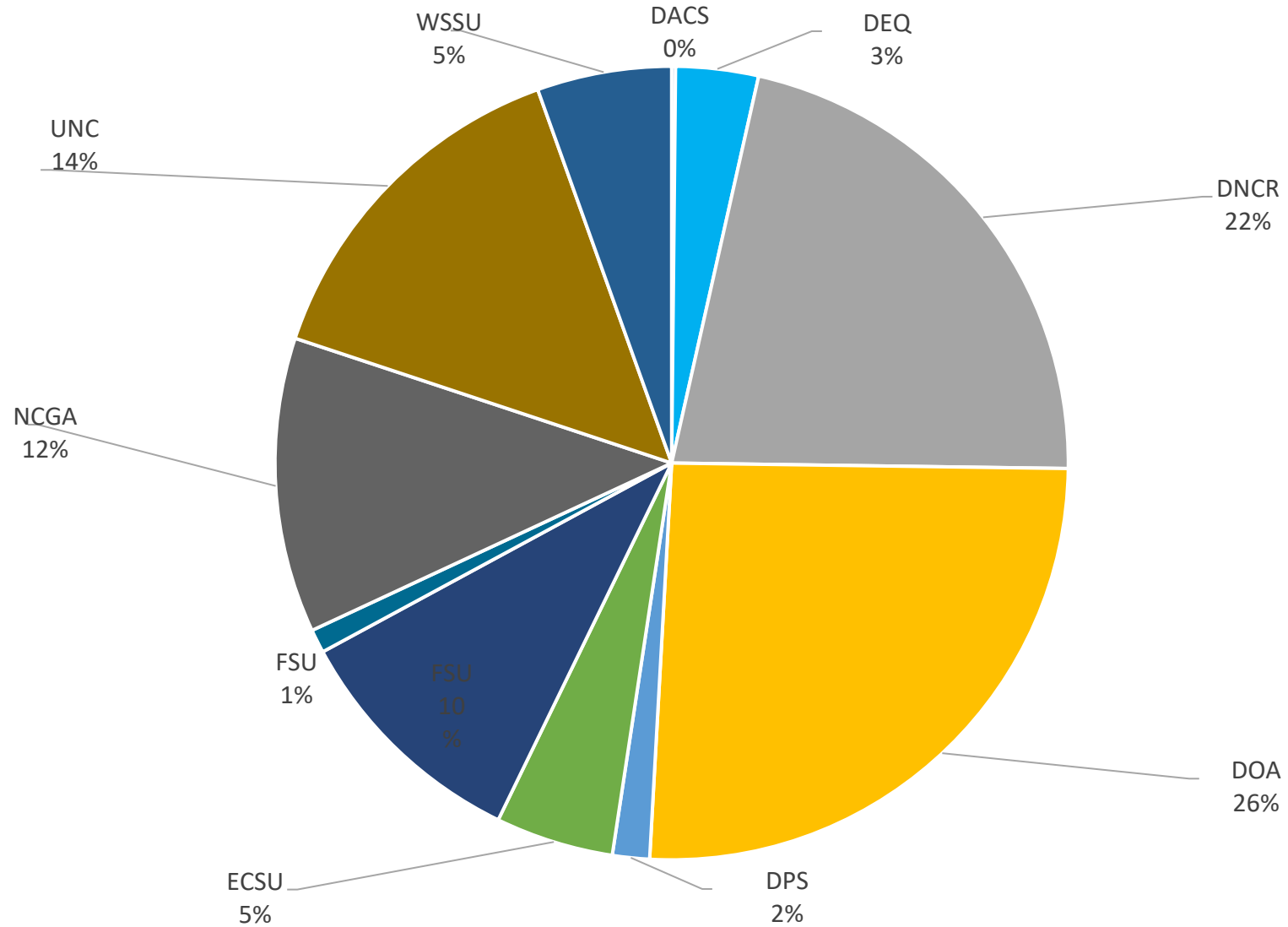


Flex Fund Need

- Budget Requests may have underestimated time to construction from funding:
 - Project Developed by Agency and Campus 2024
 - Dec. 2024 Capital Requests due to OSBM
 - Spring 2025, Governor Budget Released
 - Summer 2025, General Assembly Passes a Budget
- Inflation In Key Construction Areas
- Uncertainty



Flex Fund Awards to Date





Forms Referenced

- [SCIF Allotment Form:](#)
- [Flexibility Fund Request Form:](#)
- [Flexibility Fund Job Aid:](#)



Stay in touch!

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