

Appendix B

Recommendations of the Joint Committee on Bonding, Capital Expenditures and State Assets

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| <i>Recommendation 1: A detailed and transparent five-year capital spending plan should be developed, published and maintained</i> | This report is the second five-year capital investment plan produced by this Administration and, as with the first plan published last year, it is the most detailed, comprehensive and transparent plan produced by an Administration in recent memory. |
| <i>Recommendation 2: The five-year capital spending plan should incorporate all capital spending and all types of borrowing for which the state is responsible</i> | This five-year capital investment plan identifies all expected sources of funding for capital projects funded pursuant to the capital budget, including the borrowing expected to be needed to fund such projects. In addition, Appendix A to this report, the Debt Affordability Analysis, provides a detailed description of the Commonwealth's existing debt portfolio and a thorough analysis of the Commonwealth's capacity to afford the debt proposed to be issued pursuant to this plan. |
| <i>Recommendation 3: The state should employ the least expensive methods of borrowing, generally general obligation debt</i> | The Administration generally agrees with this statement. In fact, the Administration continues to work with the State Treasurer to refinance certain unconventional financing structures with general obligation debt of the Commonwealth. The Administration will, however, continue to evaluate other potential credit structures in order to determine whether there are other, prudent credit structures that could result in less expensive borrowing costs for the Commonwealth. |
| <i>Recommendation 4: The state should dedicate more funds to current and deferred capital maintenance</i> | The Administration agrees with this recommendation. Although it will not eliminate the backlog, the increase in the bond cap permits an increased investment in deferred capital maintenance. |

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| <p><i>Recommendation 5: The state should continue efforts to de-authorize or otherwise eliminate old and unused capital authorizations</i></p> | <p>Four of the bond bills recently approved contained de-authorizations: Housing, Environment, General Government and Higher Education. As a result, \$271.2 million has been deauthorized from 287 line items since last year. The Administration looks forward to continuing to work with the Committee to identify further old authorizations that should be eliminated.</p> |
| <p><i>Recommendation 6: The state should allocate more funding to open space protection and preservation programs</i></p> | <p>The Administration agrees and, as described in this capital investment plan, has committed to doing so.</p> |
| <p><i>Recommendation 7: When available, the state should use surplus operating dollars to help address its capital spending needs</i></p> | <p>Any decision on the expenditure of surplus operating revenues should be made based on an evaluation of the merits of the various spending proposals. The Administration agrees, however, that surplus operating revenues should generally be used to fund one-time, non-recurring expenditures like capital project costs. In fact, last year, the legislature approved an Administration proposal to appropriating \$40 million of surplus funds to defease high-cost debt of the Commonwealth. This one-time expenditure freed up capacity to issue \$40 million of new low-cost bonds to fund legislatively-authorized capital projects and resulted in debt service savings for the Commonwealth which could not be realized if the surplus funds were appropriated directly to pay for capital project costs.</p> |
| <p><i>Recommendation 8: Operating expenses such as those for personnel should be eliminated from the capital budget</i></p> | <p>The Administration agrees that funding personnel from the capital budget is an imprudent practice that has been permitted to grow over the years and that poses a significant challenge to increasing our investments in capital infrastructure improvements. The Governor has made two proposals to reduce the amount of bond proceeds used to fund personnel expenses in the capital budget. First, the Governor included about \$10 million in his FY08 operating budget proposal to fund the transfer of employees off of the capital budget.</p> |

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| | <p>The Governor's most recent proposal included in his FY09 budget proposal would have authorized the Administration to shift approximately \$50 million of capital equipment acquisition costs funded from the state's operating budget to the capital budget and approximately \$50 million of personnel expenses from the capital budget to the operating budget. Neither of the Governor's proposals was ultimately enacted by the Legislature. While the current challenging fiscal environment makes it unlikely that the operating budget will be able to absorb the cost of personnel currently funded on the capital budget, the Administration is committed to continuing to pursue creative ways to begin to shift employees off of the capital budget.</p> |
| <p><i>Recommendation 9: The amount of the bond cap should be increased</i></p> | <p>The Administration is not only raising the bond cap, but it is doing so in a fiscally responsible and transparent manner. For a thorough description of the Administration's approach to the bond cap, see the Debt Affordability Analysis attached as Appendix A.</p> |
| <p><i>Recommendation 10: Statutory provisions governing the disposition of state surplus land should be amended to provide for a speedier procedure but one which preserves legislative and municipal input and control</i></p> | <p>The Administration generally agrees with the need to develop a better process for the disposition of state surplus land and looks forward to working with the Committee and other interested parties on this issue.</p> |