

Review of Capital Project Cash Flow Requirements



Senate Finance Capital Outlay Subcommittee

January 29, 2015

DeAnn B. Compton, Audit Director

Auditor of Public Accounts

Audit Requirement

Acts of Assembly Chapter 806 of the 2013 Session of the General Assembly stated, “the Auditor of Public Accounts shall report on the adherence to the cash flow requirements for each project and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects.”

Key Objectives

- Obtain a thorough understanding of the capital project cash flow requirements process and determine whether the process is effective
- Determine whether any deviation in necessary project appropriation and allotment occurred, which created a delay in the progress of projects
- Determine how Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit for capital projects set forth in Chapter 806, Item C-39.40 and whether the Commonwealth has stayed within the limit
- Determine if Planning and Budget is reimbursing the Central Capital Planning Fund and agencies and institutions for any amounts provided for and expenditures incurred for project planning for approved projects

Project Scope

- This report focused on the cash flow processes established around the Chapter 806 project pool.
- We included not only projects funded under item C-39.40, but also projects funded for pre-planning and detailed planning under item C-39.05, since the timing and availability of planning funds are significant to the entire pool process.
- The scope of this report included project activity within fiscal year 2014. This will be an annual report, describing the progress of the Chapter 806 projects and any project delays that occur each year.

Methodology

- We conducted interviews with personnel at General Services, Planning and Budget, and Treasury.
- We attended the quarterly meetings of the Six-Year Capital Outlay Advisory Committee.
- We surveyed 26 agencies and institutions of higher education that have capital projects funded through the pooled project approach.
- We performed analysis of the timing of various steps within the capital project cash flow process.

Observation

- The original intention of the Capital Outlay process was to have three separate pools that the General Assembly moves projects through once a year when they meet. This would allow the General Assembly to stop a project in the planning process, if desired.
- Projects in planning pools cannot move through the process until the next General Assembly session, which could cause delays and inaccurate construction estimates due to the passage of time and cost fluctuations.
- The current process of placing unplanned projects in the construction pool eliminates the ability of the General Assembly to evaluate projects after detailed planning for feasibility and cost before moving to construction.

Recommendation

- The General Assembly may wish to amend the process to consolidate the planning pools and have one planning pool and one construction pool.
- Then the General Assembly could empower the Advisory Committee to move projects through the two planning phases (Pre-planning and Detailed Planning) and use funds from the Central Capital Planning Fund for planning these projects.
- This could result in cost savings for the Commonwealth through timelier project schedules while preserving the original intent of the pooled process to provide the General Assembly the opportunity to evaluate the feasibility and cost of projects before approving them for construction.

Observation

- An overall delay of approximately 8 months occurred to fund two projects with planning money from the Central Capital Planning Fund due to:
 - The lack of available planning funds (There is only \$15 million in the fund)
 - The need to wait for the quarterly Advisory Committee meeting to set priorities
 - The lengthy time for Planning and Budget and Accounts to process planning fund reimbursements and transfers

Recommendations

- Planning and Budget should work with the Department of Accounts to understand the Central Capital Planning Fund process and develop a reasonable time schedule for these transactions to occur to ensure that new projects receive planning funds timely.
- The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.

Observation

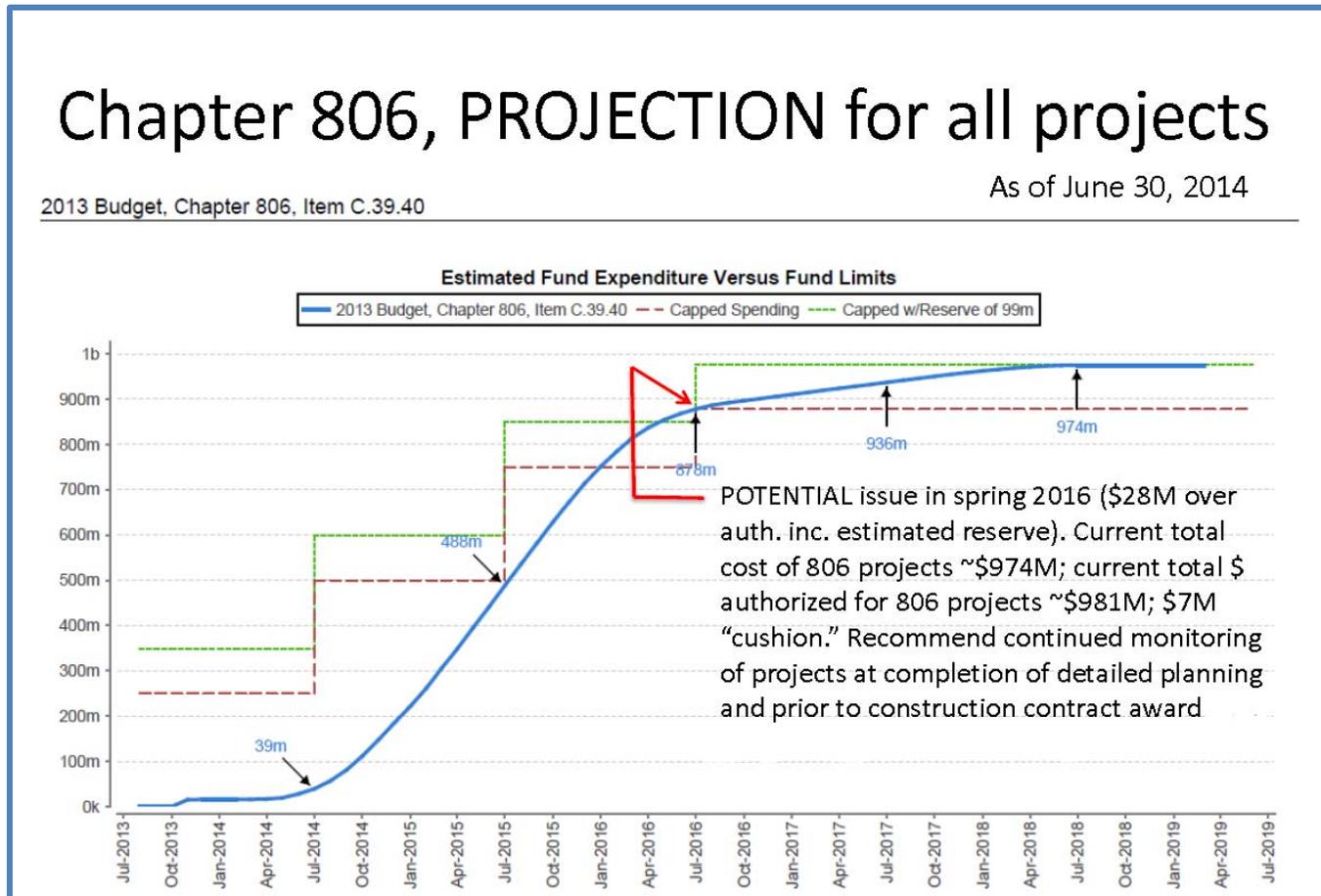
- Monitoring the \$250 Million Annual Limit
 - The Advisory Committee uses software to create a graph to forecast project expenses against the annual limit
 - The graph is based on estimates that are much higher than actual expenses
 - The graph forecast is very conservative due to the following assumptions
 - Uses a bell curve that assumes most funds are spent in the middle of the project timeline
 - Detailed planning amounts will be reimbursed at the first allocation of Chapter 806 debt
 - Spend order: Chapter 806 debt, all other debt, agency funds
 - Project start and end dates are aggressive

Graph to Monitor \$250 Million Limit

Chapter 806, PROJECTION for all projects

2013 Budget, Chapter 806, Item C.39.40

As of June 30, 2014



Observation

- The Advisory Committee does not reconcile or compare the estimates to actual expenses to date.
- With the graph being so much more conservative than actual, the Advisory Committee runs the risk that they will delay projects moving to construction because the graph predicts hitting the annual limit, while in reality they will not.

Recommendation

- The Advisory Committee should develop a process to evaluate the estimated expenses used in the graph against actual expenses to prevent projects from potentially being held up by the Advisory Committee.

Observation

- Chart on slide 11 shows that the total estimated expenditures for all Chapter 806 projects totals \$974 million, which is just \$7 million under the total amount authorized of \$981 million.
- This means there is not much “cushion” for any change in project budgets as unplanned projects go through the planning phases, developing more refined project estimates.
- In addition, \$64 million of the reserve is an estimate of project savings, which has the potential to shrink.

Recommendation

- The potential exists that at some point in the future, there may not be enough funds allocated to complete all of the Chapter 806 projects, and the General Assembly may wish to consider adding more funds to the Chapter 806 construction pool.

Observation

- The \$250 million issuance limit over Chapter 806 pool funded projects seems to be redundant.
- The General Assembly authorizes new capital debt annually. At any given time, there are many bond authorizations outstanding for numerous capital projects.
- Setting an annual limit over one authorization and not others seems to have no purpose. The Commonwealth already has a debt capacity limit of which any debt issued for Chapter 806 projects is a part. Treasury properly monitors and manages the debt capacity limit.
- Therefore, the debt capacity limit should drive the amount of debt issued each year rather than a limit over one specific bond authorization.

Recommendation

- The General Assembly may wish to consider eliminating the current \$250 million dollar limit over Chapter 806 capital projects.

Observation

- Project delays occurred for three reasons
 - Prior to January 2014, the Advisory Committee did not have a process in place to approve projects for construction between meetings, resulting in projects only moving to construction when meetings occurred.
 - Agencies are not timely in their submission to Planning and Budget of the BEX, which is necessary for Planning and Budget to transfer the appropriation from the Central Capital Planning Fund to the agency project. Planning and Budget cannot approve the CO-2 without a proper BEX. Therefore, there were delays in CO-2 approvals.
 - Planning and Budget did not appear to have the resources necessary to address its responsibilities timely during fiscal year 2014 related to the Central Capital Planning Fund and approval of CO-2 forms due to conflicting priorities, such as developing the budget, acclimating to a new administration, and responding to requests and actions during the General Assembly sessions. In addition, a budget analyst was out on extended leave.

Recommendations

- Agencies need to ensure that they process the BEX to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.
- Planning and Budget should consider options as to how they can accomplish all of their responsibilities timely. This could include expanding their budget staff permanently or temporarily during certain times of the year. In addition, Planning and Budget should consider establishing pre-determined time frames in which certain transactions or approvals will occur.

Conclusion

- The capital project cash flow requirements process is effective; however, projects experienced occasional delays in obtaining planning funds from the Central Capital Planning Fund, getting approval to move to construction from the Advisory Committee, and getting approval to access construction funding.
- Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit, and to date Chapter 806 capital project expenditures have not exceeded the limit.