

SENATE OF VIRGINIA

Senate Finance Committee

Overview of Proposed Budget Amendments for Capital Outlay

SB 29 (Amendments to 2014-16 Budget)

SB 30 (2016-18 Biennial Budget)

January 2016



Capital Outlay Funding

Fund Type (\$ in millions)	SB 29	SB 30
General Fund Cash	\$1.5	\$151.3
VPBA/VCBA Tax-Supported Bonds		\$2,261.1
9(c) Revenue Bonds		\$14.4
9(d) Revenue Bonds		\$211.2
Nongeneral Fund Cash		<u>\$281.1</u>
Total	\$1.5	\$2,919.1

- \$1.6 billion in tax-supported debt for the construction, renovation, or improvements of 73 facilities across state government.
- \$129.4 million GF over the biennium and \$60.0 million in VPBA/VCBA bonds in FY 2017 for Central Maintenance Reserve.
- \$13.0 million the first year in VPBA/VCBA bonds for furnishings and equipment for capital projects nearing completion.
- \$20.0 million GF for planning 23 additional projects and supplementing the existing planning pool.



Other Capital Outlay Actions

- \$59.0 million in VPBA bonds over the biennium for the Stormwater Local Assistance Fund.
- \$350.0 million in VPBA bonds to expand the facilities operated by the Virginia Port Authority.
- \$100.0 million in VCBA bonds for lab enhancements and research equipment under the Higher Education Research Initiative.
- \$37.0 million in VCBA/VPBA bonds to supplement two previous capital outlay project pools.
- Savings of \$18.3 million from previous VPBA bonds related to 17 projects at the Department of Corrections and the Department of Juvenile Justice.
- In SB 29: \$1.5 million GF for maintenance of the Carillon in Richmond.



Proposed GF Supported Projects (\$ in millions)

<u>Agency</u>	<u>Project</u>	<u>GF</u>
Ag. & Cons. Services	Install Generators in Reg. Labs	\$0.8
Virginia State Ext.	Replace HVAC in Carter Bldg.	1.0
Gunston Hall	Construct New Water Lines	0.2
Central Capital Outlay	Maintenance Reserve	129.4
Central Capital Outlay	Capital Project Planning	<u>20.0</u>
Total, GF Cash Supported Capital Projects		\$151.3



Equipment for Projects Nearing Completion (\$ tax-supported bonds)

<u>Agency</u>	<u>Project Title</u>	<u>FY 2017</u>
Science Museum	Construct Event Space and Upgrade Museum Exhibits	\$2,561,000
Longwood University	Construct Student Success Center	627,000
James Madison Univ.	Renovate and Expand Madison Hall	2,043,000
Radford University	Renovate Whitt Hall	861,000
VA Comm. Univ.	Renovate Sanger Hall, Phase II	1,795,000
VA Comm. Univ.	Renovate Raleigh Building	750,000
George Mason Univ.	Construct Academic VII/Research III, Phase I	3,512,000
Depart. of Veter. Serv.	Expand Virginia War Memorial	900,000
Total		\$13,049,000



9(c) Revenue Bonds

<u>Institution</u>	<u>Project Title</u>	<u>FY 2017</u>
College of William and Mary	Renovate Dormitories	\$2,500,000
Norfolk State University	Renovate and Upgrade Dormitories	9,237,000
Richard Bland College	Convert Former Humanities and Social Sciences Building into Student Housing	<u>2,650,000</u>
Total 9c Debt		\$14,387,000



9(d) Revenue Bonds

<u>Institution</u>	<u>Project Title</u>	<u>FY 2017</u>
College of William and Mary	Improve Auxiliary Facilities	\$5,000,000
	Improve Athletic Facilities	5,000,000
Virginia Tech	Renovate Student Health Center	3,071,000
Longwood University	Construct Athletic Facilities	35,878,000
	Construct Eastern Madison St. Parking Garage	17,640,000
University of Mary Washington	Construct New Parking Deck, Phase I	7,000,000
James Madison University	Construct East Campus Parking Deck	40,000,000
Virginia Community College System	Construct Parking Deck, Virginia Western	14,307,000
Projects with a Combination of Tax-Supported Debt and 9D:		
Virginia Military Institute	Post Infrastructure Improvements - Phases I, II, and III	3,380,000
Virginia Commonwealth University	Construct School of Allied Health Professions Bldg.	10,800,000
	Construct School of Eng. Research Expansion	41,341,000
George Mason University	Renovate Robinson Hall & Harris Theater	2,582,000
	Construct Utilities Distribution	<u>25,228,000</u>
TOTAL		\$211,227,000



SENATE OF VIRGINIA

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Capital Outlay and Debt 2016 Session



Capital Outlay Overview

- The Commonwealth maintains a large portfolio of land and buildings, from the seat of government to colleges, universities, prisons, agency offices and facilities located throughout the state.
- Proper maintenance of these assets is expensive; requests related to renovations and infrastructure upgrades have been submitted.
- Future capital outlay requests are substantial; prioritizing these projects within available funding or debt capacity will be necessary.
- Less traditional requests related to debt continue to materialize.



Six-Year Planning Process and the Six-Year Project Advisory Committee

- In 2008, the requirement for a six-year capital outlay plan was codified.
 - The goals of this plan are:
 - 1) to provide for a more business-like approach to capital budgeting and
 - 2) to produce a more consistent, reliable, and predictable capital outlay program.
 - Project costs are placed in a range for budgeting purposes, since precise costs are not known at this stage (i.e. \$10 to \$25 million, \$25 to \$50 million, \$75 to \$100 million).
 - Multi-phased process appears to be leading to more efficient management of resources.
- The “Six-PAC” reviews, analyzes and recommends projects to the Governor for inclusion in the six-year plan (Sec. of Finance, and the Directors of DPB, DGS, SCHEV, HAC and SFC).
 - The “Six-PAC” was also tasked by the 2013 General Assembly with managing the cash-flows of a \$1.1 billion project pool.
 - Budget language requires that no more than \$250 million in bonds be issued each year (beginning with FY 14) until this pool is completed.



Chapter 665, 2015 Session

Capital Funding

Capital Outlay Funding (in millions)

<u>Fund Type</u>	<u>2014-16</u>
General Fund Cash	\$141.4
VPBA/VCBA Tax-Supported Bonds	117.7
9(c) Revenue Bonds	67.5
9(d) NGF Revenue Bonds	119.1
Nongeneral Fund Cash	<u>74.5</u>
Total	\$520.3



Capital Outlay Requests for this Biennial Budget were Significant

Secretarial Area	Total Project Requests (in millions)*	General Fund Portion (in millions)*
Education	\$9,103.7	\$6,768.7
Public Safety	786.0	652.0
Health & Human Resources	641.7	593.1
Transportation	619.4	0.0
Natural Resources	407.4	5.6
Administration	197.8	173.5
Agriculture & Forestry	3.9	0.5
Commerce & Trade	1.4	0.0
Total	\$11,761.2	\$8,193.4

* As submitted to the Department of Planning and Budget. Requests include some projects that have received funding for planning.



Types of Capital Outlay and Debt Requests for the 2016 Session

- Funding for previously planned projects/projects approved for preplanning or detailed planning,
- Maintenance Reserve (SCHEV recommendation for HE is \$116.3 million),
- Equipment for facilities coming online,
- Higher Education Equipment Trust Fund,
- Higher Education (Renovations, New Facilities, Research, and Workforce),
- Health and Human Resources (Mental Health and Intellectual Disabilities),
- Natural Resources (Parks, Conservation, Water Quality, and Storm Water),
- Public Safety (Corrections, Forensics, and Department of Juvenile Justice),
- Veteran Care Facilities,
- Seat of Government, and
- Transportation (Port projects and DMV service centers).



Projects Approved for Planning Have Substantial Costs

- Current projects approved for either preplanning or detailed planning are estimated to **cost almost \$1.7 billion** (projects in the funding pipeline).
 - Part of the multi-tiered approach to planning and construction.
 - Costs may be reduced based on review and “value engineering” by the Department of General Services.
 - Costs for equipment are also often removed and then funded at the projected time of project completion.
 - Some projects will likely not be ready to proceed at this time.
 - **Projects at higher education institutions account for \$901.6 million for 24 projects.**
 - **Non-higher education projects account for almost \$791.0 million for 17 projects.**



Considerations for Evaluating Capital Outlay Requests

- Total debt capacity: official December model.
 - The Commonwealth could authorize \$603.5 million per year over a ten-year period.
- Future needs – planned and unplanned.
- Current deferred maintenance needs of existing facilities.
- Growth or decline in relevant populations, including long-term trends (i.e. higher education enrollment, prison population trends, etc.).
- Costs of operating and maintaining a facility once a project is completed.
- Higher Education – State Council of Higher Education for Virginia (SCHEV) recommendations regarding space guidelines.



SCHEV Capital Outlay Project Request Assessment and Prioritization

Priority 1 – Projects that meet the Council’s Fixed Asset Guidelines or are considered critical to supporting the capital outlay needs of Virginia’s system of higher education. Also included in this group are projects that address ADA, security issues and infrastructure improvements for energy efficiency and mechanical, electrical and plumbing (MEP) systems.

Priority Group 1.B – Projects that address critical state wide capital outlay needs and have compelling programmatic justifications but do not meet the space need and productivity criteria under the Council’s Guidelines.

Priority 2 – Projects that do not meet the space/productivity criteria in the Council’s Guidelines but have some compelling programmatic justification.

Priority 3 – Projects that do not meet the space/productivity criteria in the Council’s Guidelines and have less immediate space/programmatic need.

Priority 4 – These are non-guideline requests. Assessment is deferred.

In addition, projects authorized for detailed planning by the General Assembly in previous legislations or for equipment funding of authorized construction.



Summary of SCHEV Capital Outlay Project Recommendations

Total Requested Funding by Fund and Priority Group - (in millions)

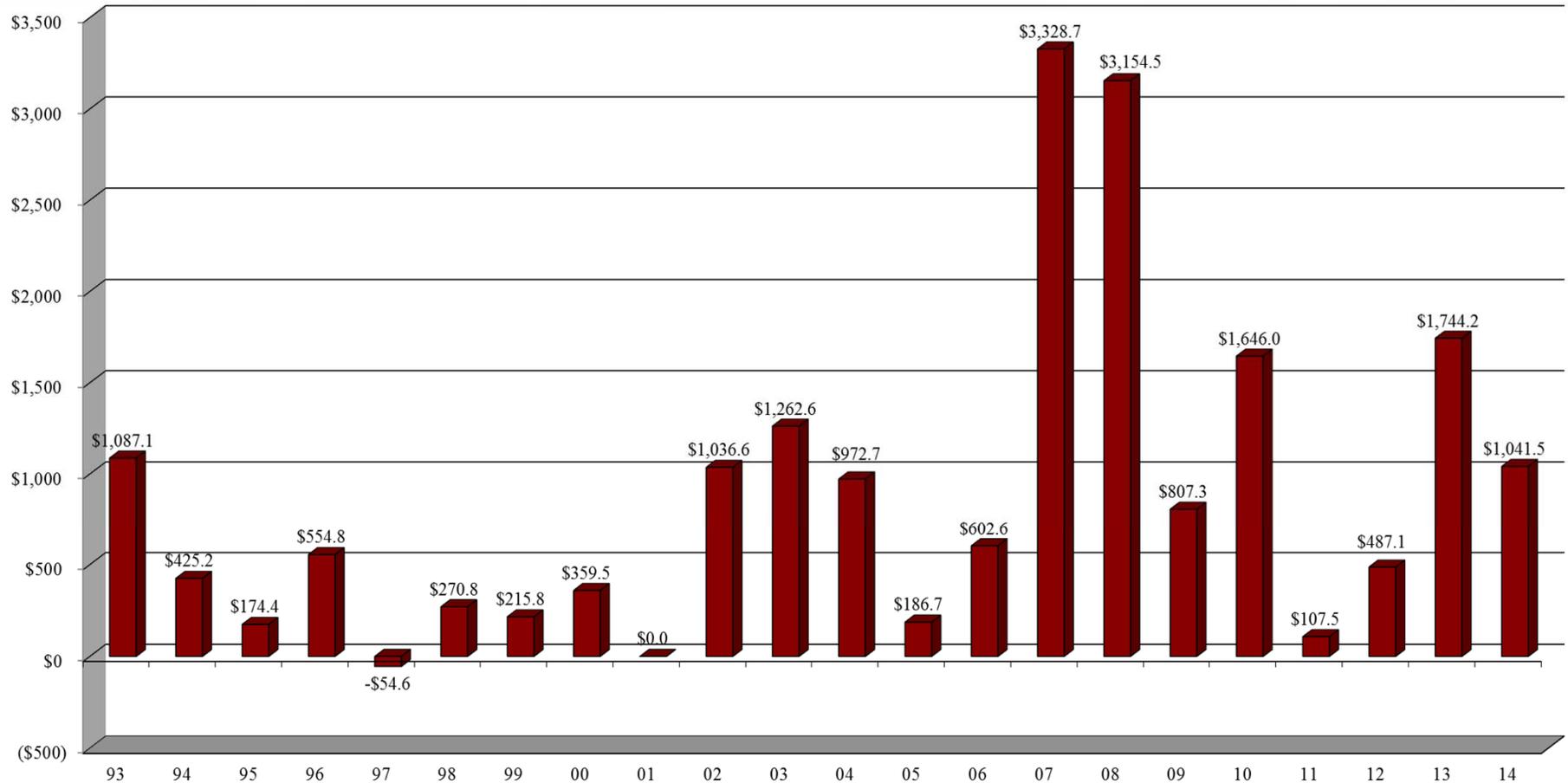
Priority Group	GF	NGF	9(d) Debt	Total Requests	Total Projects
Priority 1	\$1,707.5	\$38.1	\$352.9	\$2,098.5	64
Priority 1.B	955.4	101.8	31.3	1,088.5	41
<i>Included in Recommendations</i>	\$2,662.9	\$139.9	\$384.2	\$3,187.0	105
Projects in Approp. Acts	690.9	5.0	10.8	706.7	22
Priority 2	1,957.4	81.3	349.0	2,387.7	57
Priority 3	1,279.2	110.4	105.1	1,494.8	49
Priority 4	120.0	3.0	120.0	243.0	4
<i>Not included in Recommendations</i>	\$4,047.5	\$199.7	\$585.0	\$4,832.2	132
Total Requests	\$6,710.4	\$339.6	\$969.2	\$8,019.2	237



Overview of Debt



Tax Supported Debt Authorizations 1993- 2014 (in millions)



- 1992 GOB Referendum:
Total authorized \$612.9 million.

- 2002 GOB Referendum:
Total authorized over \$1.0 billion.

Source: *Overview of Debt and Review of Debt Capacity*, State Treasurer, October 22, 2015.



Framework for Commonwealth Debt Constitutional Basis - Article X

Type	Purpose	G.A. Action	Referendum	Security
9(a)	Emergencies, Deficits, Redeem Obligations	General Auth.	No	GO
9(b)	Capital Projects <ul style="list-style-type: none"> ▪ Requires a simple majority vote, ▪ Approved by the voters, ▪ AAA; lowest cost of borrowing, and ▪ Projects specified for a single purpose. 	Project Auth.	Yes	GO
9(c)	Rev. Producing Capital Projects <ul style="list-style-type: none"> ▪ Backed by GO pledge and ▪ Not included in the DCAC model. 	2/3 Majority Project Auth.	No	Revs+GO
9(d)	Anything Else <ul style="list-style-type: none"> ▪ Appropriation backed debt (tax-supported) or ▪ 9(d) HE debt (not tax-supported debt). 	General Auth.	No	Revs/App

Source: *Overview of Debt and Review of Debt Capacity*, State Treasurer, October 22, 2015.



Debt Capacity Model – Measure and Inputs

- In 1991, DCAC adopted the measure that debt service on tax-supported debt should be less than 5% of blended revenues.
 - Recommendation is expressed in terms of a ten-year average.
 - Blended Revenues include:
 - General Fund Revenues,
 - General Fund Transfers – ABC, Sales Tax, Recurring Transfers,
 - VA Health Care Fund, and
 - Transportation Trust Fund (“TTF”).
- Tax-supported debt includes:
 - Debt for which debt service payments are made or pledged to be made from funds derived from tax revenues.
 - Certain bonded debt, capital leases, installment purchases, etc.,
 - 9(b) General Obligation, and
 - 9(d) VCBA (21st Century/Equipment), VPBA, VPA, and CTB debt (secured TTF).

Source: *Overview of Debt and Review of Debt Capacity*, State Treasurer, October 22, 2015.



Debt Capacity Model – Measure and Inputs (Continued)

- Tax-supported debt does not include:
 - 9(c) G.O. since payments are to be paid by project revenues,
 - Moral Obligation issued by Virginia Resources Authority,
 - Sum Sufficient Appropriation issued by Virginia Public School Authority, and
 - Grant Anticipation Revenue Vehicles (“GARVEES”).
- Scheduled debt service on outstanding tax-supported debt is included in model.
- Debt service on authorized but unissued debt included in model is based on:
 - DPB draw schedules and information from agencies,
 - Long-term and short-term interest rates, and
 - Level debt service payments, (except 9(b) G.O. which is amortized on a level principal basis).
- Factors Affecting Debt Capacity
 - Revisions to revenue estimates,
 - Additional tax-supported debt authorized, and
 - Changes to issuance assumptions (actual financing dates/terms vs. estimated, revisions to project spending schedules, and changes in interest rates).
- The **December** official model solution shows that **up to an additional \$603 million** could prudently be authorized and issued over each year of the 10 year horizon of the model.



Next Steps

- The current capital outlay process (multi-phased approach and pool process) is working.
 - The Commonwealth has consistently been authorizing debt to address capital outlay needs.
- Prioritization of the requests in the different areas will be required given this context: available debt capacity, project return on investment, and an eye toward future needs.
- The Subcommittee can examine projects by agency, area, need, trends, etc. and request formal presentations at future meetings.
 - The Subcommittee will ask the other policy area subcommittees to provide input regarding projects and recommendations.
- Senate Finance Committee staff will work with other agencies, including DPB and DGS, to acquire better project cost estimates in order to have sufficient information to develop any potential package related to capital outlay.

