

SENATE OF VIRGINIA

Senate Finance Committee

Virginia's Capital Assets: The Challenge of Managing, Maintaining and Planning for the Future



November 22, 2013



The Take-Away

- The Commonwealth maintains a huge 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; the Commonwealth is struggling to keep up with these needs.
- Lack of adequate funding for maintenance reserve often leads to the need for major renovation of buildings.
- Future capital outlay requests are substantial and prioritizing these projects within available funding or debt capacity will be critical.



Basic Questions

- How many buildings does the Commonwealth own? How many acres of land?
- How old are the buildings and what condition are they in?
- How many buildings does the state lease and what is the cost of leases?



Inventory of Virginia's Capital Assets

- The Commonwealth does not maintain a comprehensive inventory of capital assets in one single integrated data repository accessible to interested parties or the general public.
- At least five disparate systems are being used, all with similar data, to track the same capital assets. The systems contain inconsistent basic information such as the number and ages of buildings.
 - The Department of General Services (DGS) maintains **IREMS**, which has general information on buildings, age, square footage, and leased space.
 - The Department of Treasury, Division of Risk Management (DRM) maintains **VAPS**, a comprehensive list of assets for insurance purposes.
 - The Department of Accounts (DOA) maintains **FAACS** and **LAS** to report on fixed assets and lease liabilities.
 - **FICAS** was created in 2004 to standardize the assessment and reporting of all types of facilities by all state agencies, but has never been fully implemented.



Integrated Real Estate Management System

- The Integrated Real Estate Management System (IREMS) is utilized by the Department of General Services (DGS) to manage the Commonwealth's capital assets and leased space.
 - The Portfolio Module contains data on all land and most buildings owned by the state, including acreage of land, and square footage and age of buildings.
 - Does not include data on condition of the assets.
 - The Leases Module contains comprehensive data on most spaces leased by state agencies to include square footage, monthly rent, and cost per square foot, and includes access to actual lease documents.
 - Used to track lease expirations and to compare rental costs of various properties.
 - Does not include higher education foundation leases.
 - The vendor that created IREMS has recently gone out of business and **the platform is no longer being supported.**
 - DGS currently has a Request for Proposals pending to replace the system.



Summary of VA's Capital Portfolio

Based on data in the Integrated Real Estate Management System (IREMS).

Secretarial Area	Square Feet	Total Buildings	Average Age	Total Acres of Land
Higher & Other Education	78,587,774	3,113	50 years	24,860
Public Safety	16,508,572	2,176	36 years	24,578
Transportation	10,621,762	3,183	33 years	4,994
Health & Human Resources	8,878,151	578	52 years	3,068
Administration	6,586,821	72	74 years	305
Other	5,837,081	198	46 years	1,311
Natural Resources	1,727,770	1,536	44 years	305,925
Agriculture & Forestry	<u>914,373</u>	<u>344</u>	<u>44 years</u>	<u>59,970</u>
Total	129,662,304	11,200	42 years	425,001



Summary of Commonwealth Leases

Based on data in the Integrated Real Estate Management System (IREMS).

Secretarial Area	Square Feet	Total Leases	Annual Rental Obligation
Higher & Other Education	5,459,192	490	\$52,855,644
Public Safety	2,539,693	446	36,353,313
Health & Human Resources	2,278,346	235	28,022,782
Other	702,380	138	8,506,544
Administration	614,857	50	4,793,118
Natural Resources	464,545	40	5,709,450
Transportation	365,768	62	7,057,570
Agriculture & Forestry	<u>14,279</u>	<u>10</u>	<u>118,638</u>
Total	12,439,060	1,471	\$143,417,060



Division of Risk Management

VAPS Database

- The Division of Risk Management maintains the Virginia Agency Property System (VAPS), an Access database used for insurance purposes.
- VAPS contains much of the same base information as IREMS but also includes:
 - Information on the replacement value of buildings and basic contents.
 - Critical information on fine arts, historical documents, rare books and manuscripts, and other unusual property.
- It is the responsibility of agencies to maintain their VAPS data and the information is not routinely verified, but Risk Management reports it is sufficient for insurance needs.
- The VAPS system currently includes data on 11,928 state-owned buildings with their replacement value estimated at \$23.5 billion, 2,176 leased buildings, and the contents of all buildings valued at about \$7.0 billion.



Department of Accounts

FAACS and LAS

- DOA maintains the Fixed Asset Accounting and Control System (FAACS) for the purpose of reporting assets in the Commonwealth's Comprehensive Annual Financial Reports (CAFR).
- Data in FAACS includes some of the same base information available in IREMS on buildings.
 - Does not include enterprise funds, transportation, higher education, other component units or any information on land acreage.
- DOA also maintains the Lease Accounting System (LAS), for the purpose of reporting assets related to capital leases and liabilities related to operating leases.
 - Does not include operating leases managed by DGS.
- Both FAACS and LAS, established in the 1980's, are mainframe systems that are dependent on agencies entering and maintaining data.



Facility Inventory and Condition Assessment System

- The Facility Inventory and Condition Assessment System (FICAS) includes comprehensive data regarded by users as highly accurate and useful information since it is entered as the result of on-sight evaluations.
 - Includes much of the same base data in the IREMS system. However, includes 12,872 buildings with total replacement value calculated at \$56.8 billion.
 - Does not include data on leased space.
- FICAS contains substantial additional information regarding the condition and age of building systems, such as roofs and mechanical systems, and includes **projected maintenance reserve needs**.
- The Auditor of Public Accounts began entering data in 2004. DGS issued guidelines for agency data submission in 2005.
- FICAS is no longer supported by DGS due to budget cuts in 2010. However many agencies and institutions are still using the system to track assets (paying their own license fees). Legacy data is still available.



Comparison of Data Systems

System	Number of Owned Buildings	Square Feet (millions)	Value or Replacement Cost (\$ in billions)	Number of Leases	Annual Rental Costs (\$ in millions)
IREMS	11,200	129.7	N/A	1,471	\$143.4
VAPS	11,928	127.8	\$23.5	2,176	N/A
FAACS	8,385*	N/A	\$3.6*	N/A	N/A
LAS	N/A	N/A	N/A	150**	\$7.2**
FICAS	12,872	180.8	\$56.7	N/A	N/A
2012 CAFR	7,442*	32.8*	\$24.0	N/A	\$186.3

N/A = Information not available from this system.

* Does not include higher education, other “component units”.

** Does not include leases managed by DGS reported in IREMS.



Maintenance of Capital Assets

- What does it cost to maintain the Commonwealth's Capital Assets?
- How much progress is being made to keep up with maintenance needs?



Photos courtesy Kevin Morley/Times-Dispatch



What is a Maintenance Reserve Project?

- A single major repair or replacement to plant, property or equipment, normally in a cost range of \$25,000 up to \$1.0 million, including:
 - Equipment such as elevators, furnaces, plumbing, HVAC systems;
 - Components such as masonry, ceilings, windows, floors, roofs;
 - Utility systems to include electrical, water, sewer;
 - Deficiencies to conform with fire/safety codes, or hazardous conditions; and,
 - Erosion and drainage problems.
- Maintenance reserve does NOT include:
 - Routine preventive maintenance, painting, replacement of carpet (operating budget); or,
 - Multiple systems replacement, or renovations over \$1.0 million (capital project).



Maintenance Reserve Funding Policies

- § 4-4.01 of the Appropriation Act requires:
 - “The first priority of any agency or institution requesting capital outlay appropriations shall be maintenance reserve funds.”
 - “Each agency head shall provide to the Director, Department of Planning and Budget, a plan for the use of the maintenance reserve appropriation...prior to the allotment of funds.”
 - “The agency head shall give first priority to the repair or replacement of roof(s) on buildings under control of the agency.”
 - “The agency head shall certify in the agency’s annual update to its maintenance reserve plan that to the best of his or her knowledge, all necessary roof repairs have been accomplished, are in the process of being accomplished, or the necessary funds for accomplishing the work have been requested before the agency requests funds for other improvements or new construction projects.”



Defining “Deferred Maintenance”

- Deferred Maintenance occurs when the facility owner does not perform planned maintenance, repair, replacement or renewal projects due to lack of resources.
 - Results in progressive deterioration of the facility condition and/or performance.
 - Cost of deterioration includes increased operating costs and productivity losses, ultimately leading to increased capital costs.
- At the direction of the General Assembly, the Auditor of Public Accounts has made several recommendations to improve the process for managing and funding maintenance (2004, 2005 and 2009).
 - Establishing standard condition levels for state-owned buildings.
 - Having consistent facility condition data in one integrated system.
 - Reforming budget process for facility maintenance.



Examples of Deferred Maintenance



Maintenance Reserve Backlog

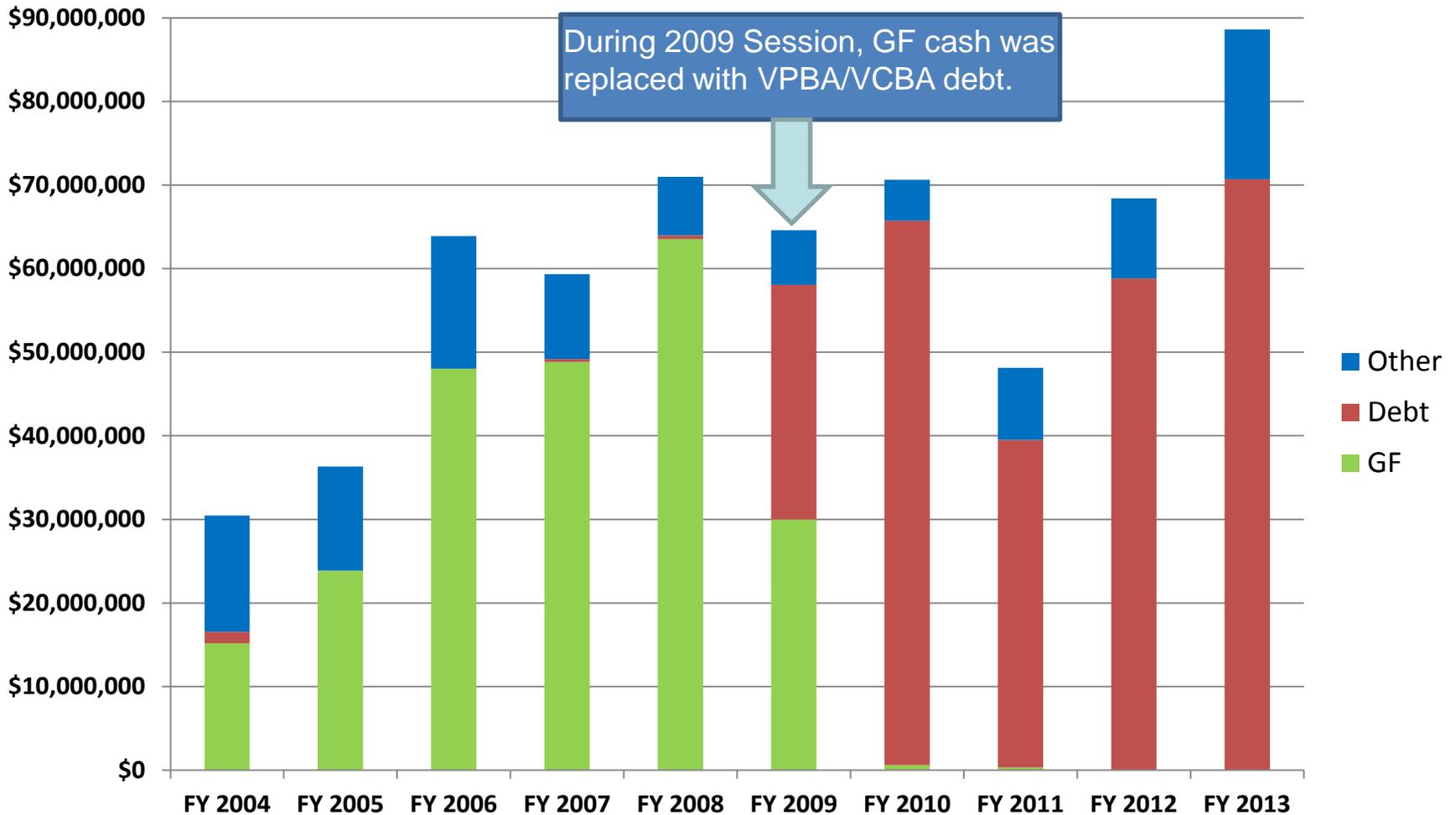
- The Auditor of Public Accounts reported the following from data available in FICAS, which remains incomplete but is the best information currently available on building conditions.
 - Variance in data is mostly attributable to having more complete information as agencies continued to enter facility assessments.

	Oct. 2005	Mar. 2009	Oct. 2013
Total Sq. Ft.	128,180,246	133,587,528	180,804,260
Number of Buildings	10,449	11,320	12,872
Average Age	36 years	52 years	53 years*
Total Deferred Maintenance (\$ in billions)	\$1.5	\$3.3	\$4.9
Total Replacement Cost (\$ in billions)	\$9.2	\$24.7	\$56.8

* Data includes 129 buildings with no age specified. FICAS and VAPS have different ages listed for the same buildings.



Maintenance Reserve Expenditures



Maintenance Reserve Funding Needs

- The lack of standardized data makes it difficult to estimate the current annual maintenance reserve funding needs for all state facilities.
 - Based on national standards, the State Council of Higher Education for Virginia (SCHEV) estimates the minimal acceptable level of maintenance reserve funding necessary for the E&G portion of Virginia’s Higher Ed facilities at \$98.2 million GF per year, which is three times more than what has historically been funded.
 - Based on a conservative estimate of one percent of E&G building replacement value (national standards range from one to four percent of replacement value).
 - Does not address maintenance reserve backlog.
 - As of the beginning of FY 2013, the Department of Planning and Budget had documented \$699.0 million of critical maintenance reserve projects, of which only \$112.4 million had funding sources available.
 - The Department of Corrections alone has submitted a 2014-16 capital budget request that includes about \$300 million in deferred building repairs.



Maintenance Reserve Needs for Higher Education Facilities

SCHEV Funding Recommendation for the Maintenance Reserve Program in 2014-16 Biennium

Institution	E&G Building Replacement Value ¹	Annual Funding Need ²	FY2014 Funding	% of FY14 to Recommend
Christopher Newport University	\$257,368,063	\$2,573,600	\$254,107	10%
College of William and Mary	\$659,989,889	\$6,599,800	\$1,412,817	21%
George Mason University	\$571,106,918	\$5,711,000	\$2,779,273	49%
James Madison University	\$703,400,060	\$7,034,000	\$2,132,460	30%
Longwood University	\$194,840,689	\$1,948,400	\$930,273	48%
Norfolk State University	\$244,942,197	\$2,449,400	\$2,751,748	112%
Old Dominion University	\$374,803,980	\$3,748,000	\$1,166,856	31%
Radford University	\$270,112,477	\$2,701,100	\$957,422	35%
University of Mary Washington	\$101,584,721	\$1,015,800	\$562,604	55%
University of Virginia	\$2,052,907,899	\$20,529,000	\$5,026,531	24%
University of Virginia at Wise	\$81,121,079	\$811,200	\$105,349	13%
Virginia Commonwealth University	\$918,443,640	\$9,184,400	\$2,592,132	28%
Virginia Military Institute	\$427,671,085	\$4,276,700	\$790,123	18%
Virginia State University	\$253,434,160	\$2,534,300	\$2,544,815	100%
Virginia Tech	\$1,137,040,555	\$11,370,400	\$5,649,158	50%
Richard Bland College	\$54,776,224	\$547,700	\$52,489	10%
Virginia Community College System	\$1,514,265,995	\$15,142,600	\$4,035,833	27%
Total	\$9,817,809,630	\$98,177,400	\$33,743,990	34%

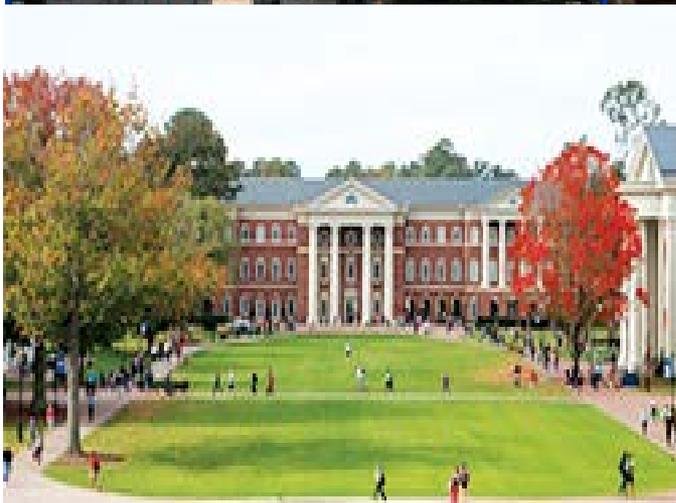
Notes:

(1) Data sources are FICAS Replacement Value and SCHEV survey of Educational and General facilities, excluding infrastructure.

(2) Calculation is derived by 1% reinvestment rate.



Capital Outlay Planning and Funding Requests



Six-year Planning Process

- In 2008, the General Assembly codified the requirement for a six-year capital outlay plan:
 - Beginning in 2009, the Governor must submit annually a tentative bill to the General Assembly for the next six fiscal years.
 - Initial plan adopted in 2009 is a dynamic document.
 - As projects are completed, they come off the plan and can be replaced with new projects.
 - Major updates to the plan are made in even years to coincide with biennial budget.
 - However, adjustments to the plan can be made annually.
 - The goals of this plan are: 1) to provide for a more business-like approach to capital budgeting, while reducing parochial and partisan pressures; and, 2) to produce a smoother, more reliable and predictable capital outlay program.
 - Projects 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).



Six-year Project Advisory Committee

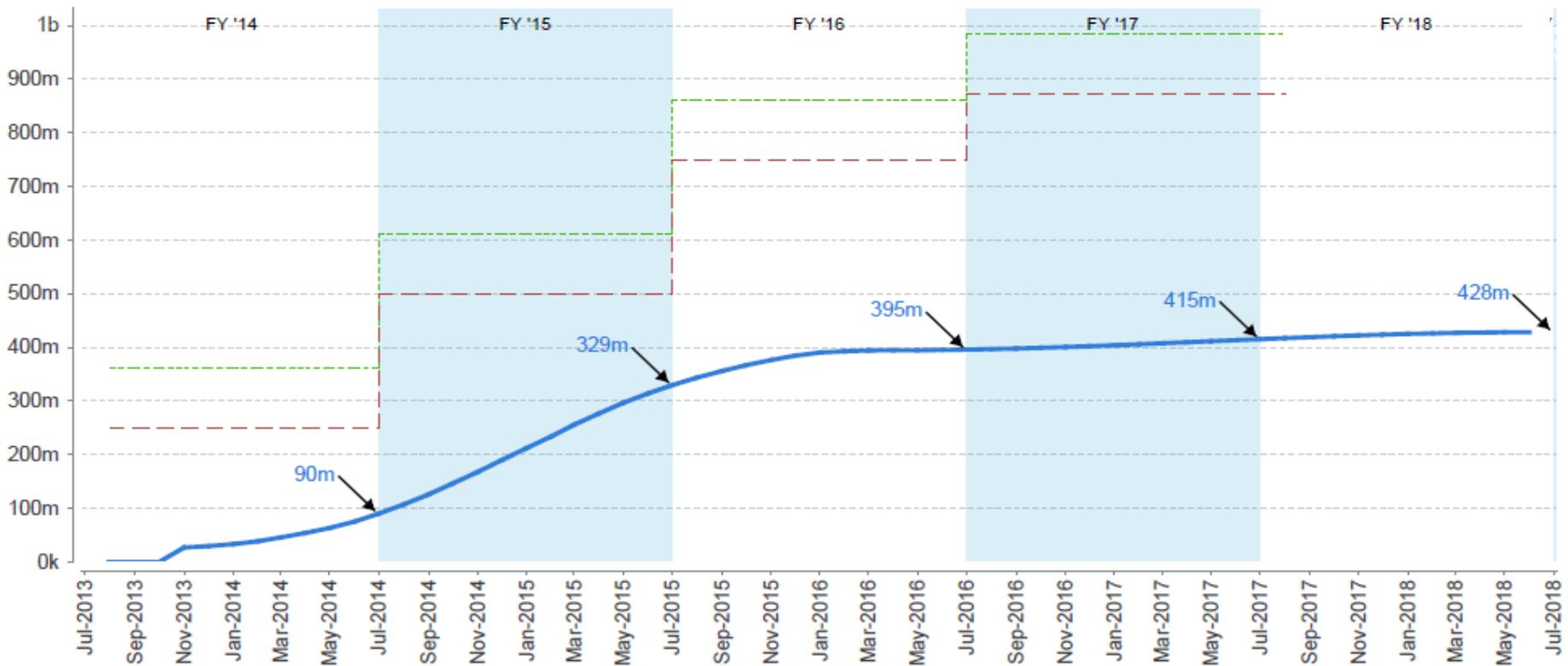
- The “Six-PAC” reviews, analyzes and recommends projects to the Governor for inclusion in the six-year plan.
 - Committee consists of the Secretary of Finance, and the Directors of Department of Planning and Budget, Department of General Services, State Council of Higher Education for Virginia, House Appropriations Committee and Senate Finance Committee.
 - 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) as this pool is completed.
 - To date, projects in the 2013 pool have moved forward much slower than envisioned so it is unlikely the \$250 million cap will be reached.



Projected Cash Flow of Project Pool

- DGS is requiring agencies with projects approved for construction in the Chapter 806 (2013) pool to use “GCPay” to manage cash flow.

Estimated Fund Expenditure Versus Fund Limits
 — 2013 Budget, Chapter 806, Item C.39.40 - - Capped Spending - - - Capped w/Reserve of \$112m



Summary of Capital Project Requests

- Agencies and Institutions were required to submit capital budget needs, to include requests for the Commonwealth's Six Year Capital Outlay Plan in June 2013.
 - Over \$4.1 billion of these requests are for major renovation projects.

(\$ in millions)

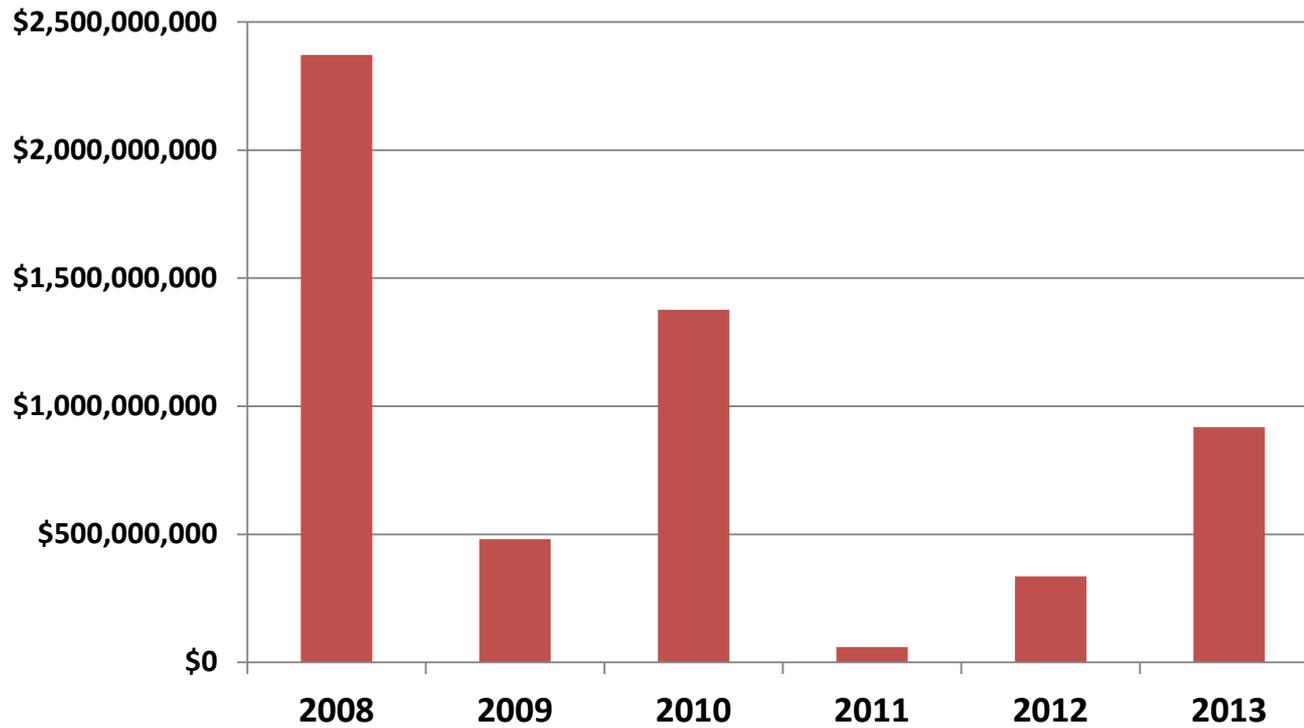
Secretarial Area	Total Project Requests	General Fund Portion
Higher & Other Education	\$10,637.5	\$7,522.5
Public Safety	606.2	511.8
Administration (Seat of Govt.)	401.6	401.6
Health & Human Resources	343.6	343.6
Natural Resources	104.3	97.8
Agriculture and Forestry	<u>16.2</u>	<u>16.2</u>
Total	\$12,109.4	\$8,893.5



Debt Capacity

- How much debt has been issued for capital outlay projects and how much capacity does the Commonwealth have to meet future needs?

Tax Supported Capital Outlay Debt Authorized *



* Does not include debt authorized for transportation or water quality projects.



Debt Capacity

- Virginia maintains a self-imposed debt ceiling policy so that no more than 5% of blended revenues will be required for debt service.
- The Debt Capacity Advisory Committee (DCAC) meets each year prior to the General Assembly session and determines the amount of debt that can be prudently issued while staying within the debt ceiling.
 - Virginia now uses a ten year average, which provides that debt service may exceed 5% in a given year, as long as the ten-year average remains below 5%.
 - DCAC will next meet in mid-December to update debt capacity model after official revenue forecast is available.
- Debt ceiling policy of 5% is an unwritten standard adopted by DCAC, which is much more conservative than what the VA Constitution allows:
 - “twenty five per centum of an amount equal to 1.15 times the average...” of three prior year annual collections of sales and income tax revenue.

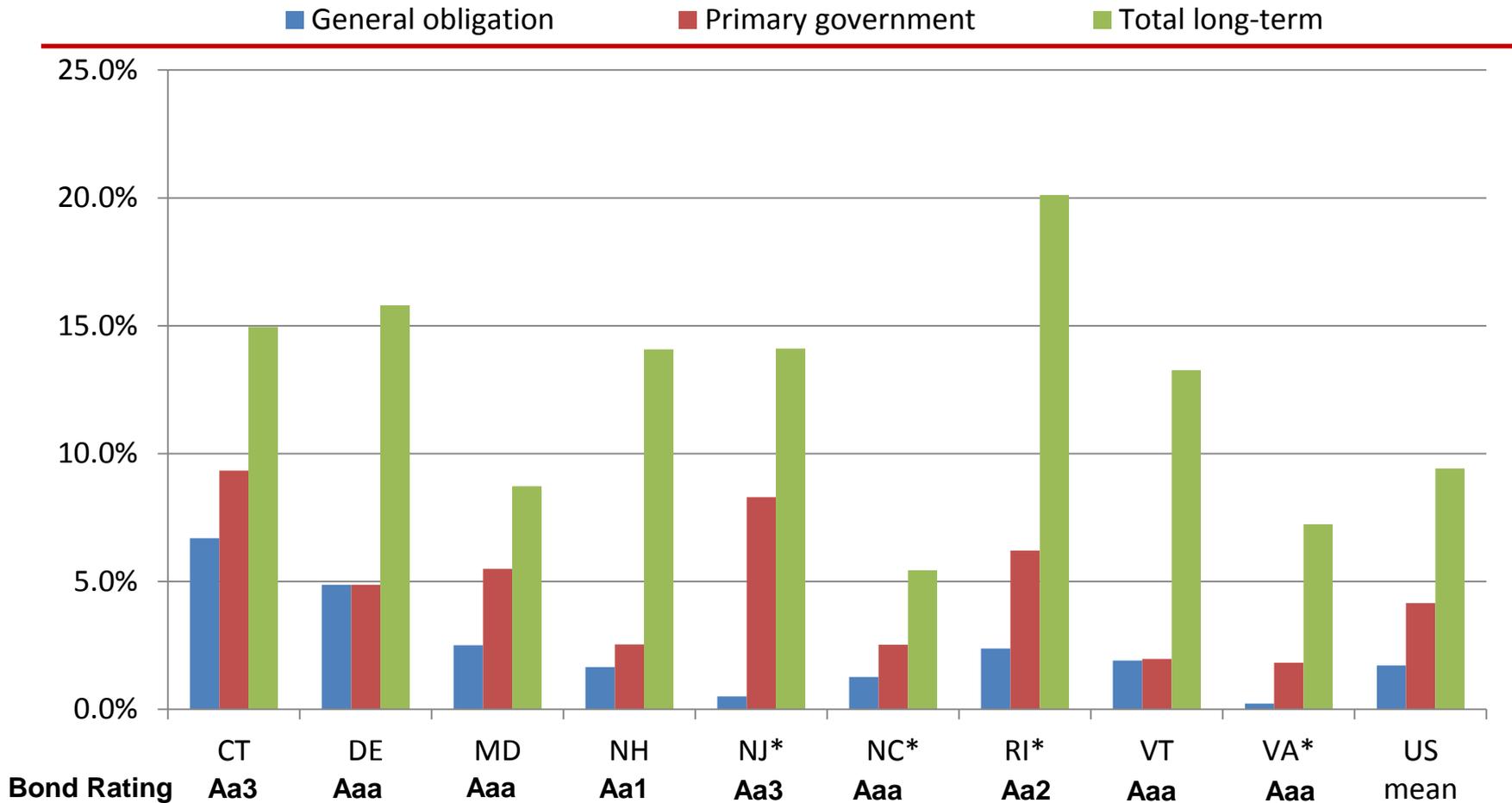


Debt Capacity with 2013 General Assembly Actions (\$ in millions)

Fiscal Year	Projected Total Debt Service (Includes Transportation)	Debt Service as % of Revenues	Net Debt Service Capacity	Additional Debt That Could Be Issued
2013	\$868.95	4.75%	\$44.97	N/A
2014	915.26	4.83	32.23	\$447.10
2015	999.83	5.05	(9.37)	447.10
2016	1,029.99	5.02	(4.86)	447.10
2017	1,035.34	4.87	28.18	447.10
2018	1,028.58	4.67	71.62	447.10
2019	986.06	4.33	152.50	447.10
2020	924.13	3.92	253.81	447.10
2021	910.83	3.70	319.45	447.10
2022	892.00	3.47	393.00	447.10



Comparison of Debt to Personal Income



Source: New England Public Policy Center, Federal Reserve Bank of Boston.

Note: General obligation and primary government debt for FY 2012 year-end; Census data for FY 2010 year-end. Does not include local government debt.

* Designates states that require voter approval for GO debt.

Issues for Future Consideration

- How can the state better address maintenance reserve needs of an aging infrastructure?
- Should the Commonwealth have a single, integrated, comprehensive data system for facility asset management?
- Should more general fund cash be used for maintenance reserve and capital outlay needs?
- Should General Obligation bonds be used more frequently to obtain better interest rates?
 - 1992 and 2002 last two GO bond authorizations.
- Is self-imposed 5% limit compared to blended revenues too conservative to keep up with capital outlay needs?

