

SENATE OF VIRGINIA

Senate Finance Committee

Capital Outlay and Debt Issues for the 2016 Session

November 20, 2015



SENATE FINANCE COMMITTEE

Capital Outlay – 2016 Preview

- 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 are expected during the upcoming Session.



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 the Next Biennial Budget are 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: unofficial October model.
 - The Commonwealth could authorize \$542.6 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)

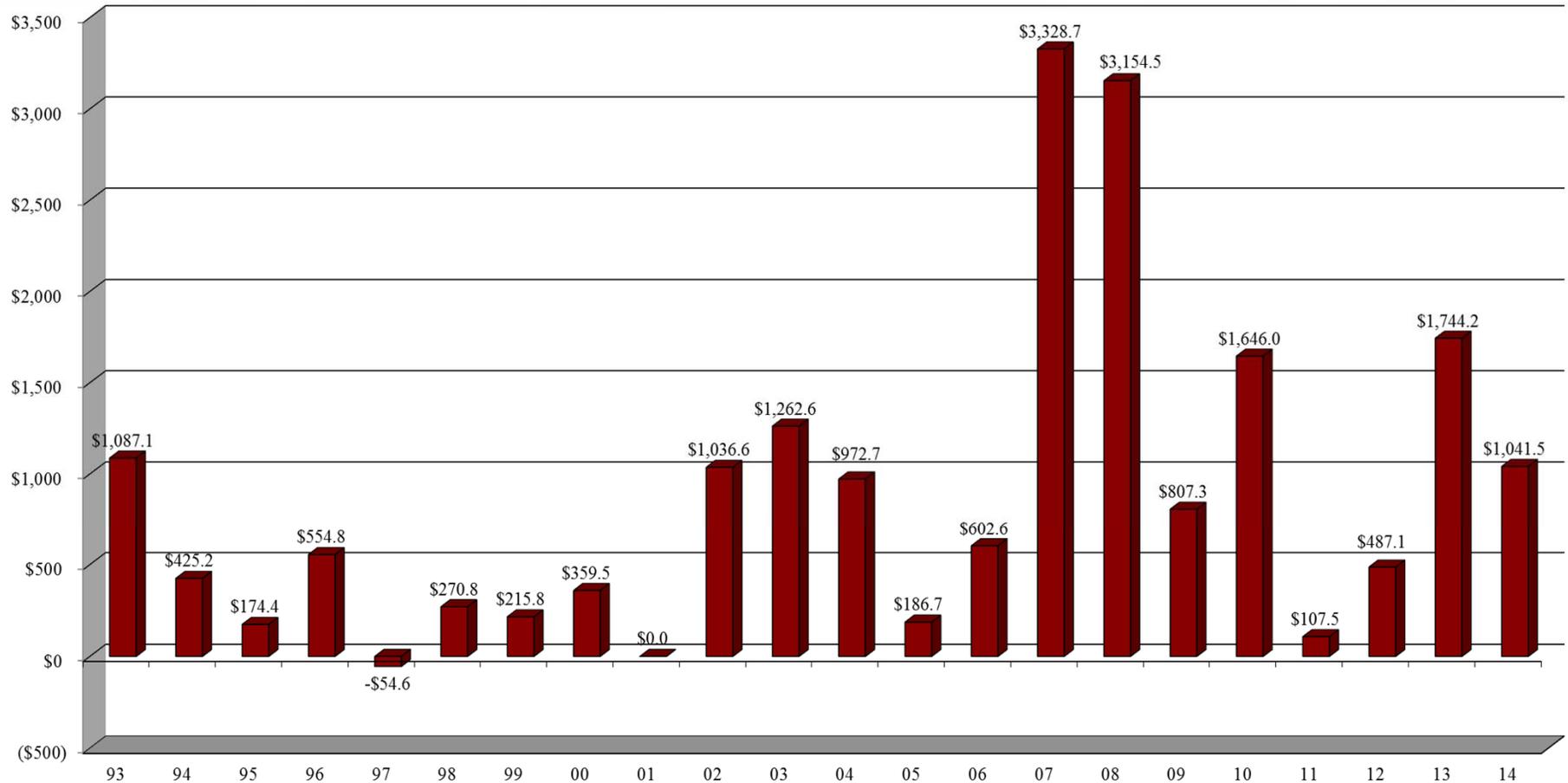
Priority Group	GF	NGF	9(d) Debt	Total Requests	Total Projects
Priority 1	\$1,707.5	\$38.1	\$352.9	\$2,098.5	64
Priority 1.B	955.4	101.8	31.3	1,088.5	41
<i>Included in Recommendations</i>	\$2,662.9	\$139.9	\$384.2	\$3,187.0	105
Projects in Approp. Acts	690.9	5.0	10.8	706.7	22
Priority 2	1,957.4	81.3	349.0	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).

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



October 2015 Unofficial Update

- The October unofficial model solution shows that up to an additional \$543 million could prudently be authorized and issued over each year of the 10 year horizon of the model.
- October model results are unofficial and for information purposes only.
 - The model is updated for:
 - New tax-supported debt authorized in 2015 General Assembly session,
 - Actual debt service on debt issued through June 30, 2015,
 - Actual General Fund revenue through June 30, 2015, and
 - Department of Taxation August working revenue forecast.
- The DCAC is scheduled to meet again on December 18.

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



Examples of Capital Requests, by Type



Education Projects



Research: Virginia Tech Carilion Research Institute (VTCRI)



- VTCRI has a research portfolio of over \$60 million in active grants, with \$112 million in research expenditures.
- A second research facility, also located in Roanoke, VA, will support another 15 research teams focused on solving problems of the brain, heart disorders, and cancer.
- The success and growth of the VTCRI programs in brain (neuro-) science, cardiovascular and regenerative sciences, and cancer research in particular, require new facilities with large instrumentation located adjacent to the existing laboratory institute.
- Total Project Cost = \$ 45.7 Million:
 - \$30.8 GF, \$14.9 NGF.
 - SCHEV Priority 1.



High Need Infrastructure: VMI Post Infrastructure Improvements Phases I, II and III



- Heat Plant Improvements.
- Steam Distribution.
- Electrical Distribution.
- Monitoring and Controls.
- Roads, Bridges, Retaining Walls.
- SCHEV Priority 1 and 1.B.
- Cost estimate:
\$30.7 million GF.



Renovation: UVA Gilmer Hall - Chemistry Building



- Planning complete through preliminary documents (per previous authorizations).
- Originally a SCHEV Priority 2.
- Scope:
 - Renovate 400,000 GSF of STEM instructional and research space.
 - Replace mechanical, electrical, and plumbing systems.
- Projected cost: \$180.0 million GF.



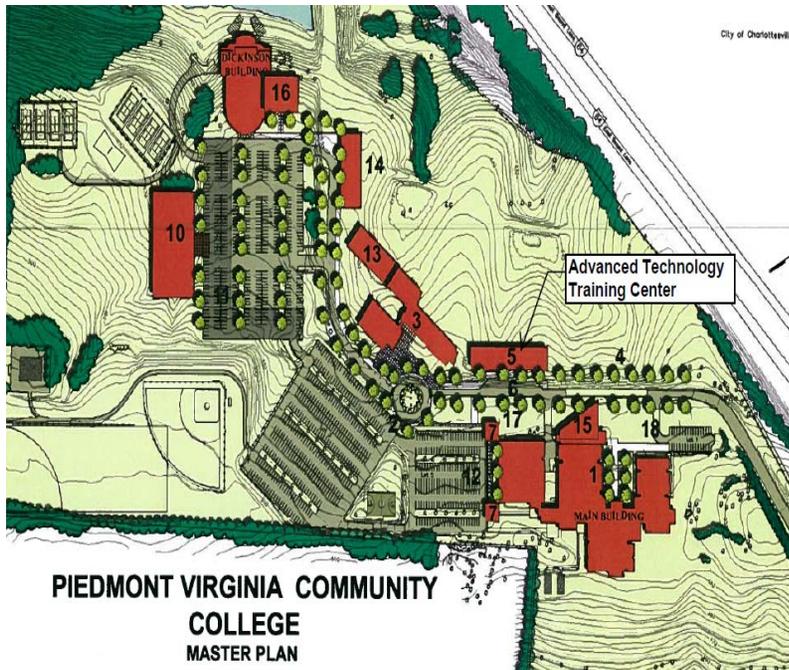
Replacement: Phase I Academic and Administration Building, Eastern Shore Community College



- Existing facility is 40 years old; major deficiencies in its structural systems (e.g. cracked walls and slabs); includes the original plumbing, mechanical, and electrical systems; not fully ADA compliant; difficult to retrofit due to existing condition.
- Construct 47,000 GSF to support STEM and other in-demand fields such as electronics technology, welding, electricity, and cyber security.
- Project will provide new labs for STEM programs, as well as space that allows the college to be flexible in its current and future program offerings.
- SCHEV Priority 1.
- Cost estimate: \$21.0 million GF.



New Construction: Advanced Technology Training Center, Piedmont Virginia Community College



- Construct 45,000 GSF for advanced technology center to house credit and non-credit programs in advanced manufacturing (engineering technology and mechatronics), information systems technology (cybersecurity, networking and programming), viticulture and enology.
- This project will dedicate a portion of the new facility for a one-stop student success center for student support services such as admissions, financial aid, advising, student activities, bookstore, and dining.
- It will also position the college to prepare students for high-tech, high-demand jobs that meet the needs of regional employers.
- SCHEV Priority 3.
- Cost estimate \$28.7 million total: \$21.7 million GF and \$7.0 million NGF.



HHR Projects



DBHDS Capital Projects Requested

- The Department's top four requests equal \$418.1 million GF.
- Additional beds may be necessary at one of the existing facilities to deal with potential closings at geriatric facilities.

Agency Ranking	Title	Request (millions)
1	Replace Central State Hospital	\$168.0
2	Expand and Renovate Sexually Violent Predator Facility	115.8
3	Expand Community Residential Opportunities	112.0
4	Expand Western State Hospital	22.3
TOTAL		\$418.1

Source: Department of Behavioral Health and Developmental Services (DBHDS) Capital Projects, Interim Commissioner, October 22, 2015.



Central State Hospital

Dinwiddie County

- Pre-planning began on May 12, 2015 for the replacement of this facility.

Existing Facility	
Building area:	624,225 SF
Average age:	60 years
Occupancy	277 beds
New Facility	
Building area:	345,307 SF
Occupancy:	280 beds
Project Cost: \$168 million	
Construction Cost:	\$153 million
Furniture, Fixtures & Equipment:	\$ 15 million



Agency statement of need:

- Eliminates use of “beyond useful life” buildings and costly repairs.
- Improves quality of treatment environment.
- Improves safety and security as well as operational efficiency.
- Allows for existing buildings to be used for emergency evacuation of other state facilities.

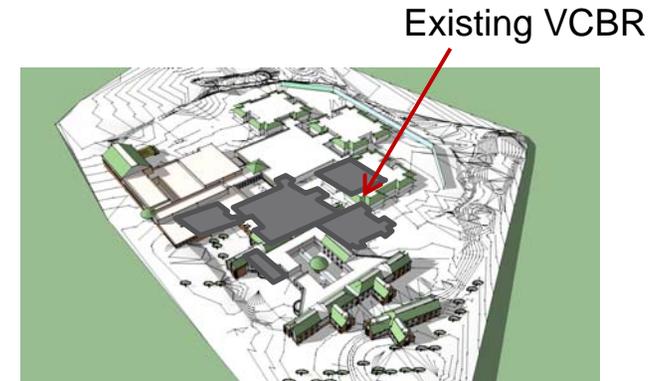
Source: *DBHDS Capital Projects*, Interim Commissioner, October 22, 2015.



Virginia Center for Behavioral Rehabilitation Burkeville

- Detailed Planning began on Dec. 1, 2014 on a new Sexually Violent Predator Facility.

Existing Facility	
Occupancy	450 beds (double bunking)
Original Facility:	174,485 SF
Double Bunking:	<u>5,427</u> SF
Total:	179,912 SF
New Facility	
Occupancy	186 beds, can increase by 76
New building space:	188,321 SF
Renovated building space:	48,826 DF
Project Cost: \$114 million	
Construction Cost:	\$106 million
Furniture, Fixt. & Equipment:	\$8 million



Agency statement of need:

- Addresses critical infrastructure requirements associated with growing population (maximum census will be reached in mid-2018).
- Provides additional treatment space and capabilities.
- Improves safety and security.

Source: *DBHDS Capital Projects*, Interim Commissioner, October 22, 2015.



Western State Hospital Expansion Staunton

- Pre-planning is authorized but has not yet begun on this expansion.

Existing Facility	
Building area:	354,508 SF
Occupancy:	246 beds
New Addition	
Building area:	52,000 SF
Occupancy:	56 beds
Project Cost: \$20.1 million	
Construction Cost:	\$18.1 million
Furniture, Fixtures & Equipment:	\$ 2 million



Agency statement of need:

- Allows for possible consolidation of state beds.
- Consolidates delivery of services.
- Greater operational efficiency.
- Central systems sized for expansion.

Source: *DBHDS Capital Projects*, Interim Commissioner, October 22, 2015.



Community Housing Project

- Would provide \$112 million to subsidize capital costs of rental units for individuals with intellectual and developmental disabilities and for people with serious mental illness.
 - Assists in complying with the Commonwealth's settlement agreement with the U.S. Department of Justice.
- The funding will be used for capital loans and grants to support construction of up to 1,700 units of affordable and accessible housing for the target populations.
 - In addition, funding could be used for capitalization of operating reserves for affordable housing developments that set aside units for these populations.
- Funded projects will likely involve the Department of Housing and Community Development and the Virginia Housing Development Authority because these funds can provide gap financing for housing projects and will require underwriting and compliance monitoring by these agencies.

Source: *DBHDS Capital Projects*, Interim Commissioner, October 22, 2015.

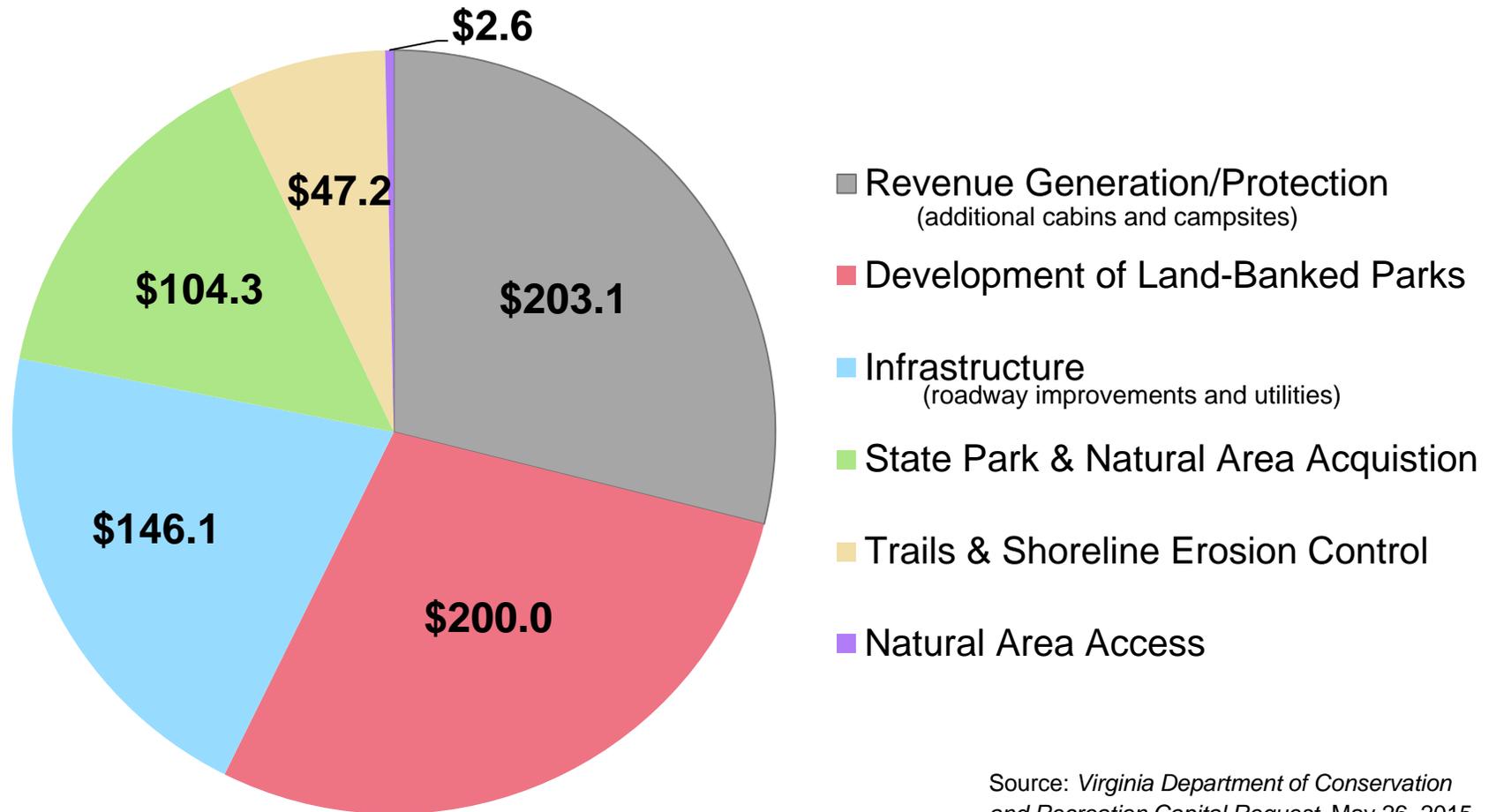


Other Areas



DCR Capital Investment Priorities (in millions)

- Department of Conservation and Recreation's (DCR) stated top priorities for capital investment total over \$703 million GF.

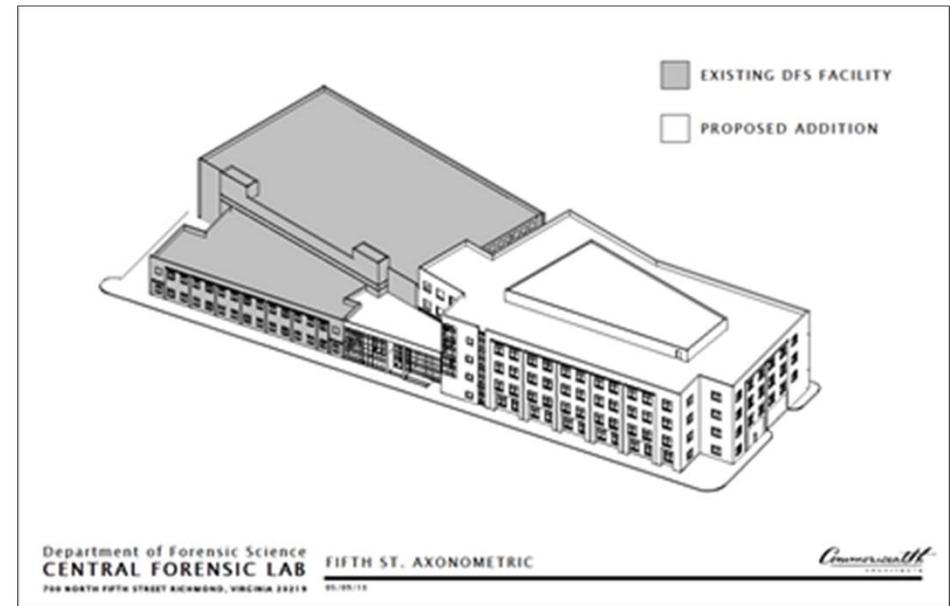


Source: Virginia Department of Conservation and Recreation Capital Request, May 26, 2015.



DFS Central Lab Expansion & OCME Facility

- Supported by formal Needs Assessment and Feasibility Study performed in 2013.
- Department of Forensic Science (DFS) and Office of the Chief Medical Examiner (OCME) - Richmond operations.
- Current Space usage = ~150,000 sq. ft.
- Projected Need in 2026 = ~280,000 sq. ft.
- Request for \$131.0 million GF.

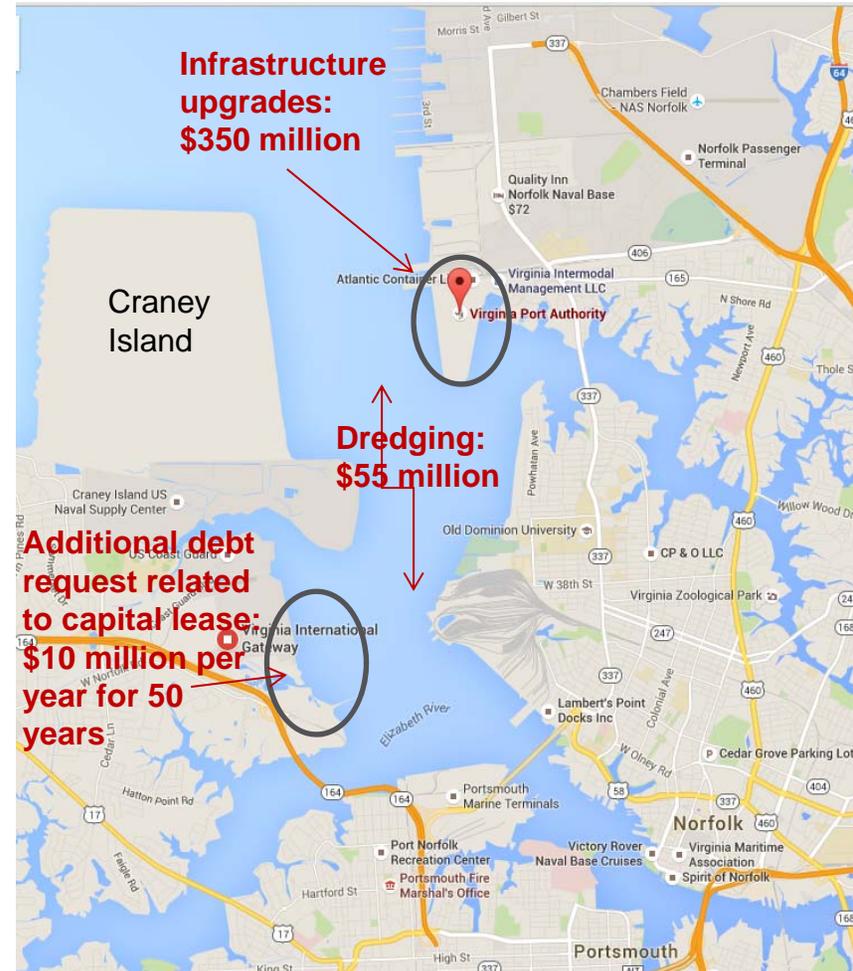


Source: Department of Forensic Science,
November, 2015.



Project Requests Related to the Port

- Multiple requests totaling over \$400 million.
- Request for \$350 million GF backed debt for upgrades at the Virginia Port Authority.
- \$55 million GF backed debt request for dredging in the channel.
- \$10 million GF backed debt per year for 50 years requested as part of the negotiations with VA International Gateway.



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 Capital Outlay Subcommittee of the Senate Finance Committee will evaluate projects by agency, area, need, trends, etc. and will have 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 and to be able to respond to member questions.

