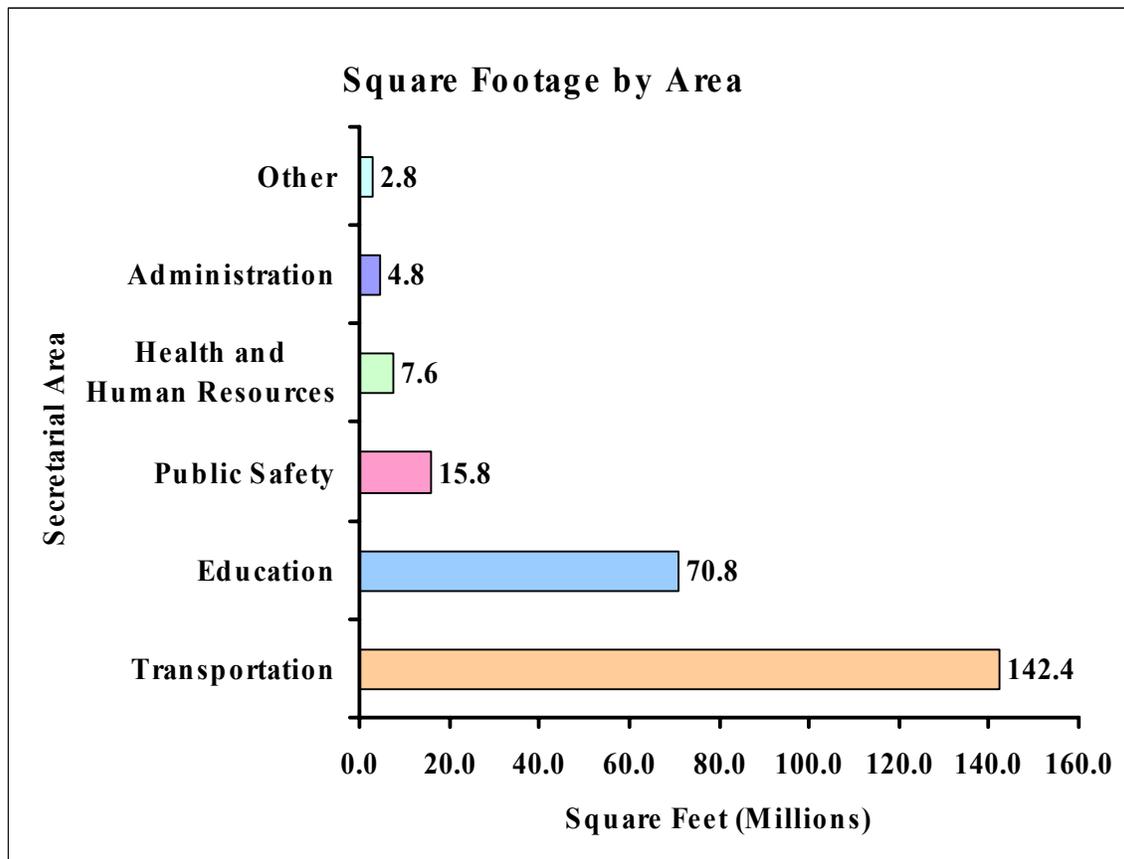


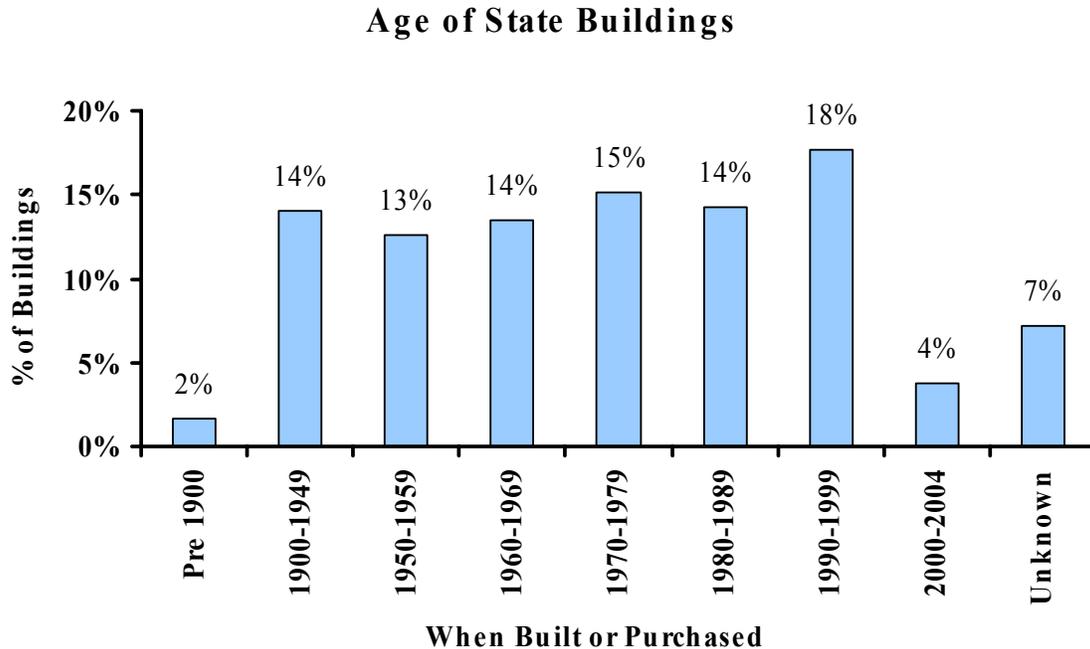
The Commonwealth Owns and Maintains an Extensive Physical Plant

- The Commonwealth owns and maintains an extensive physical plant to support its missions in education, public safety, human services, and general government:
 - About 11,400 separate buildings.
 - Over 244 million square feet of space.
 - Current replacement value of over \$17.4 billion.
- Over 58 percent of the square footage is dedicated to transportation, and almost 30 percent to higher education, teaching hospitals, and museums.



The Physical Plant is Old

- Almost 60 percent of the Commonwealth's inventory of buildings is at least 25 years old.



- 187 of the Commonwealth's buildings were constructed before 1900.
 - The State's oldest building is the Wren Building at William and Mary – built in 1695.
- Almost three-fourths were built before 1990, which places them 30 percent or more through the typical 50 year expected life of a state building.

The Commonwealth has an Active Capital Program

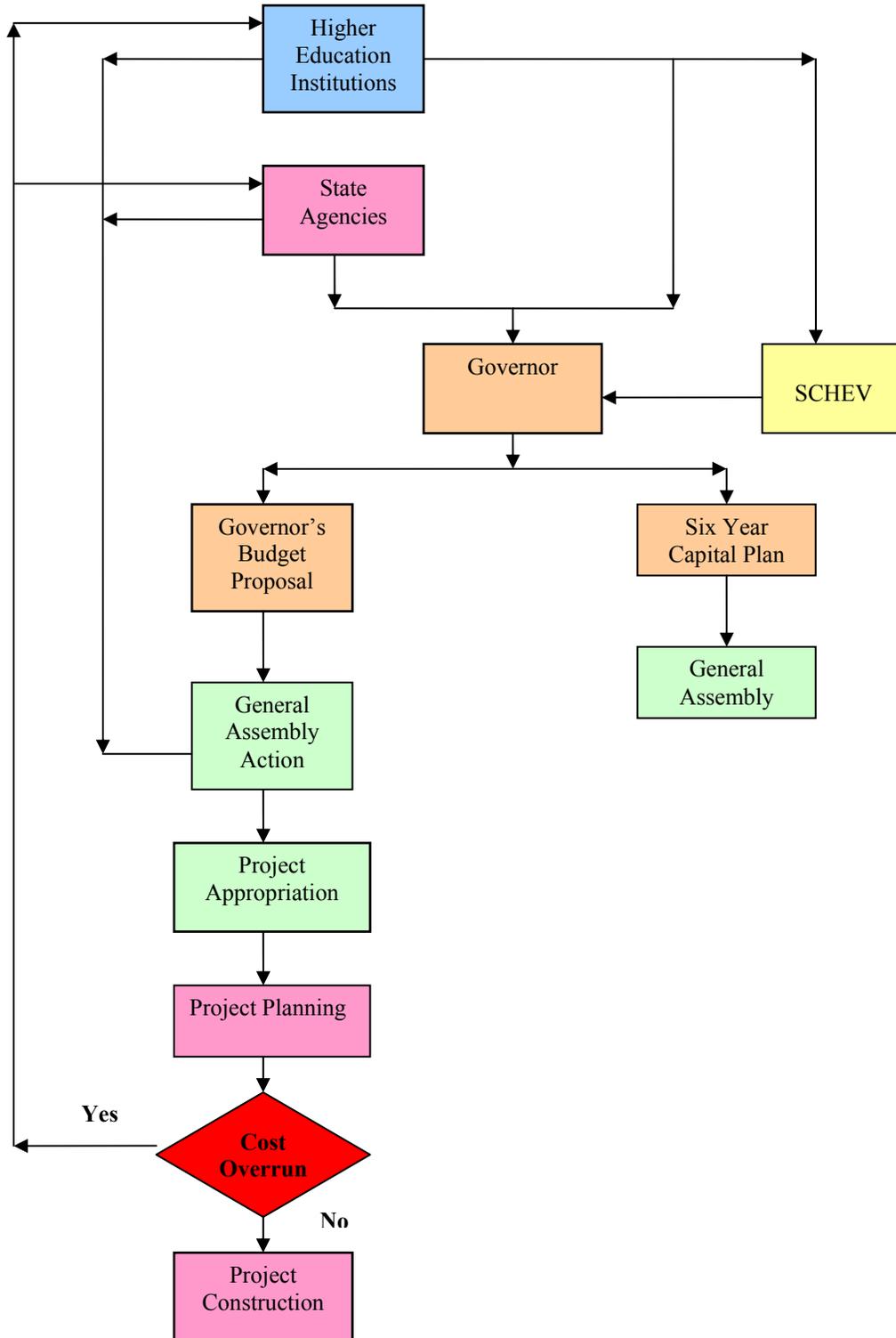
- The Commonwealth is currently managing 695 active capital projects.
 - Total obligations of \$3,958.1 million (All Funds).
 - Projects are in various stages of completion

	<u>Number</u>	<u>\$ Obligated</u>
Acquisition	43	123.4
Design	197	211.8
Completed	128	867.0
Under Construction	<u>327</u>	<u>2,755.9</u>
Total	695	\$3,958.1

- The 2006 Special Session I added \$2.4 billion (All Funds), including over \$1.0 billion GF for new projects and project supplements.

	\$ millions		
	GF	NGF	Total
Chapter 2 (Caboose Bill)	\$8.2	\$82.2	\$90.4
Chapter 3 (2006-2008 Approp. Act)	<u>\$1,020.7</u>	<u>\$1,329.1</u>	<u>\$2,349.8</u>
Total	\$1,028.9	\$1,411.3	\$2,440.2

The Current Capital Budgeting Process



Auditor of Public Accounts' Report on the Capital Process

- In 2004 the Auditor of Public Accounts initiated a review of the capital outlay process due to concerns raised by agencies and institutions of higher education.
 - The process is too lengthy, and
 - There are too many change orders and scope adjustments.
- The APA's report identified four major issues contributing to inefficiency in the Commonwealth's capital outlay process:
 - Planning,
 - Life Cycle Costs,
 - Progress Reporting, and
 - Role of DGS.

Auditor of Public Accounts' Report on the Capital Process (Continued)

- **Planning:** Under the current process, funding is committed to an entire project based solely on a conceptual design, or less.

- Detailed planning, which provides more accurate cost estimates, currently occurs *after* approval and funding.

- Change orders and scope adjustments, which add significantly to project costs, result from this inefficient planning sequence.

- There have been over \$411 million in project supplements in the last three years.

- Requests for project supplements totaling \$137.0 million GF have been submitted to the Department of Planning and Budget.

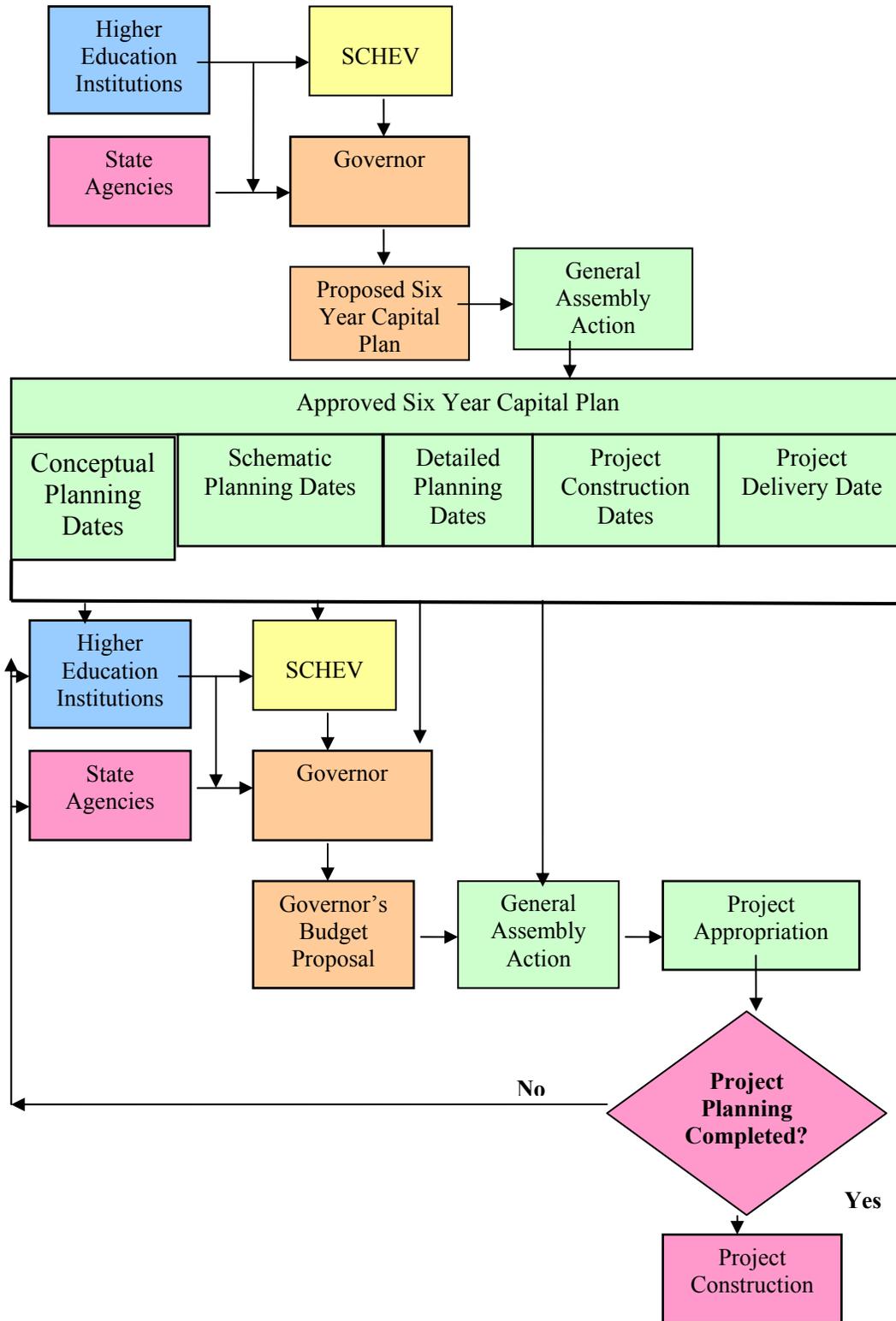
	\$ Millions GF
2004 Session	\$60.0
2005 Session	\$185.0
2006 (Special Session 1)	\$166.2
Three Year Actual	\$411.2
2007 (Requests to Date)	\$137.0
Four Year Estimate	\$548.2

- More requests can be expected for the 2007 session and the next biennium.

Auditor of Public Accounts' Report on the Capital Process (Continued)

- The APA recommended a two-step approach to capital project approval:
 - Step 1: Approve the planning phase of the project; develop an estimate of the total cost of the project.
 - Step 2: Approve project funding and construction.
- The General Assembly included language in the 2005 Appropriations Act that established a working group to determine how best to implement the APA's recommendations.
 - No action was taken.

An Alternative Capital Budgeting Process



Capital Planning in SB 30 (2006 Session)

- Capital planning was a defining issue for the 2006 regular and special sessions.
- SB 30, as introduced, contained recommendations for GF supported capital projects totaling \$1,139.8 million.

Governor's 2006 Capital Recommendations

	<u>SB 30</u>
Project Overruns & Supplements	\$149.6
Maintenance Reserve	\$150.0
Equipment	\$41.9
New Construction, Renovation & Acquisition	\$557.2
Project Planning	\$6.1
Other	<u>\$25.5</u>
Total: SB 30 (Introduced)	\$930.3
VPBA Bonds for Mental Facilities	<u>\$209.5</u>
Total	\$1,139.8

- In light of the 2004 APA report, the Senate Finance Committee had three key concerns about the proposed capital budget:
 - Additional requests for project supplements.
 - Many of the proposed projects did not have the backing of sufficient planning to move forward.
 - The proposed use of VPBA debt to support insufficiently planned projects.

Capital Planning (Continued)

- The Senate's 2006 capital program responded with three key features:
 - Elimination of the reliance on debt,
 - Provision of \$68 million for project planning, and
 - Language amendments authorizing the creation of two joint subcommittees of the Senate Finance and House Appropriation Committees:
 - A joint subcommittee to modernize the capital planning and budget system, and
 - A joint subcommittee to review cost overruns for capital projects.
- SB 30 (2006 Session), as adopted, contained recommendations for \$68.1 million GF to support planning for future capital projects, with an estimated cost of approximately \$851.2 million GF.

Schematic Planning	\$ 1.9 million
Architectural & Engineering Drawings	<u>\$ 66.2 million</u>
Total: Planning	<u>\$ 68.1 million</u>
Estimated Future Project Costs	\$ 851.2 million

Capital Planning (Continued)

- 39 planning projects representing real, future capital requirements,
- *Example:* \$200,000 for conceptual planning of a renovation of the historically significant Supreme Court Building,
- *Example:* \$4.0 million for detailed planning of a replacement for the aging and outmoded Western State hospital, in Staunton.
- *Example:* \$3.7 million for detailed planning of the renovation of the Williamsburg Community Hospital for the William and Mary School of Education.
- *Conceptual Planning:* High level, generalized plans that identify key project requirements and parameters, from which general cost estimates can be derived.
 - Conceptual planning is usually paid for from agency operating appropriations or non-state funds.
 - Conceptual planning may produce images of generalized buildings for use in marketing.
 - Conceptual planning may, or may not, identify the actual location proposed for the structure.

Capital Planning (Continued)

- *Schematic Planning*: Planning that, based on actual project requirements and location, provides floor plans and elevations of the actual structure proposed, from which approximate cost estimates can be derived.
 - Schematic planning is usually a capital outlay expense,
 - Schematic planning requires identification of the actual location proposed for the structure,
 - Schematic planning is always undertaken, but
 - Is often combined with detailed architectural and engineering design work.

- *Architectural & Engineering Drawings*: Detailed working drawings of the proposed project, from which precise cost estimates can be derived.
 - Detailed architectural and engineering planning is always a capital outlay expense.

Examples of Capital Planning

- Capital Planning is especially helpful in two areas:
 - **Building Renovation Projects:** i.e. Renovation of the School for the Deaf and the Blind in Staunton
 - **Large, Complex Projects:** i.e. Replacement of the Western State Hospital, in Staunton.

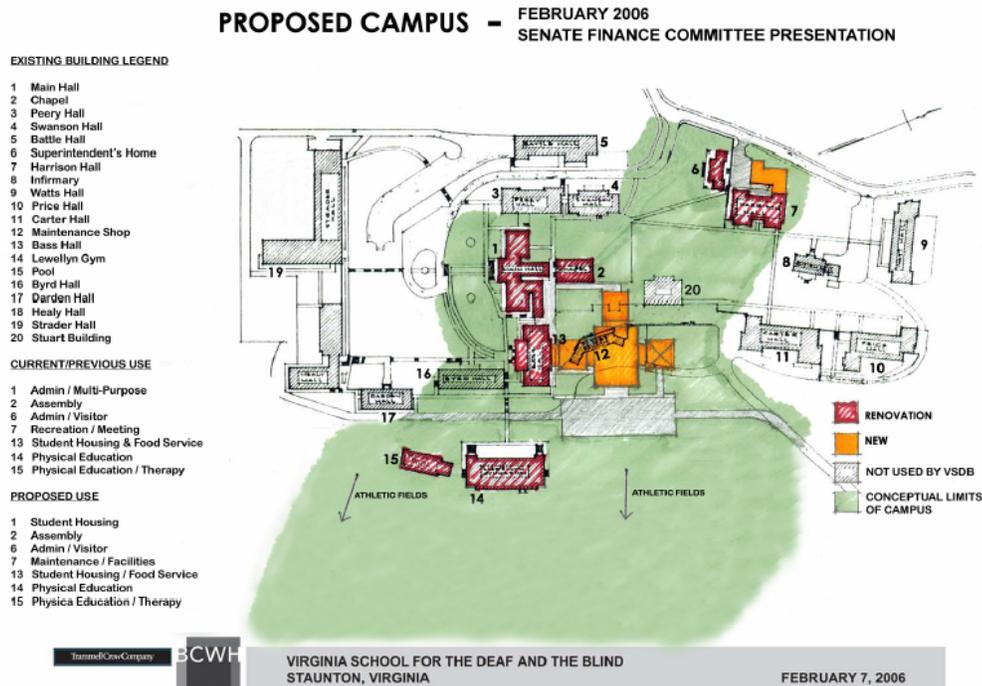
Renovation of the School for the Deaf and the Blind in Staunton



- Consolidation of the two statewide schools for the Deaf, Blind and Multi-disabled authorized in Chapter 951 (2005 Acts of Assembly).
- A PPEA in the amount of \$61.5 million GF was authorized in Chapter 951 (2005 Acts of Assembly).
 - \$61.5 million budget was based on a “conceptual” study, rather than detailed planning,
 - Project did not move forward due to Board of Education concerns about the adequacy of funds.

Renovation of the School for the Deaf and the Blind in Staunton (Continued)

- Chapter 3 (2006 Special Session I) provided \$2.5 million for schematic planning and some architectural & engineering planning.
- Final budget amounts are expected to be available for the 2007 Session.
 - Final costs estimates will likely exceed the \$61.5 million authorization,
 - Original estimates were based on construction at a new site, and
- Extensive restoration of historic buildings, as well as demolition and new construction is now involved.



Replacement of Western State Hospital in Staunton



- SB/HB 29, as introduced included a proposed PPEA authorization of \$81 million GF for replacement of Western State Hospital.
 - Project budget of \$81 million was not based on solid planning,
 - Exact location and scope of the replacement facility were yet to be determined.

Western State Hospital (Continued)

- Chapter 3 (2006 Special Session 1) provided \$2.5 million for conceptual planning, schematic planning and some architectural & engineering planning.
- Final budget amounts are expected to be available for the 2007 Session.
 - Final costs estimates will likely exceed the \$81 million originally contemplated,
 - Original estimates were not based on sound planning, and
 - The agency request for 2007, projects a total cost under the PPEA approach of \$134 million GF - a 65 percent increase from the original request.

Capital Planning - Conclusions

- The Commonwealth has a massive and ongoing capital program.
- Capital planning presents major opportunities for improvement and potential cost savings.
 - The General Assembly should consider ways to implement the findings of the APA's 2004 report on Capital Outlay.
 - The General Assembly should consider ways to strengthen the six year capital planning process.
- The Commonwealth remains unclear about the economic and other forces impacting on the cost of its capital outlay program.
 - Capital project cost increases have totaled over \$411 million GF in the past three years,
 - Capital project cost increases will likely pass the one-half billion dollar GF mark in the 2007 session, and
 - The General Assembly should consider authorizing a study of escalating capital project costs.