House Capital Program

21st Century Capital Improvement Program
Concerns on Proposed GO Bond Package

• Project cost estimates
  – The projects are rolled out over three biennia however, the cost estimates assumed in the GO bill have not been adjusted for inflation
    • The 2002 GO bond projects experienced over $330 million in overruns (about 33%)
  – In order to account for the likelihood of significant overruns the proposed bond package would need to be either:
    • Grossed up to about $2.0 billion to account for these overruns
    • Reduced by about $375 million or about 23 of the 71 proposed projects

• Project vetting
  – Of the $1.5 billion proposed in the 2008 GO bond package, about $450 million is not yet justified under SCHEV guidelines
    • Primarily they did not meet space or programmatic justification
  – Another $83 million were not evaluated because they do not fall under the SCHEV guideline process (EVMS, museum projects)
Concerns on Proposed GO Bond Package

• The legislature has provided planning funds for about $400 million worth of projects, primarily for higher education, that are ready to go and do not need to be delayed pending voter approval
  – CWM School of Education
  – UVA IT Technology
  – VPI / Carillion Medical Research Center
  – CNU Science Building, Phase I
  – Longwood Bedford Hall
  – Mary Washington Dahlgren Graduate Center
  – NSU Library Replacement
  – VSU McDaniel Hall
  – Western State Hospital
  – High Bridge State Park
Why Do We Need a Capital Program?

• The current six-year capital outlay planning process is broken
  – In 2002, the General Assembly, in Code, established a six-year capital outlay plan process to be submitted by the Governor
    • The plans are due to the General Assembly by November 1 prior to the even year session
  – We have not received the plans on time
    • Plans are typically received after the session begins and simply mirror the proposed executive budget
  – Project cost estimates are not based on an appropriate level of planning
  – Legislature is in a reactive not proactive role in terms of capital planning and programming
Purpose of the Capital Improvement Program (HB 1547)

• Provides the legislature with a roadmap to evaluate capital requests and needs
  – Improved project vetting
  – Dynamic process – revised annually to provide more accurate project cost estimates for acquisition, development, planning, or replacement of public facilities
  – Multi-year plan that allows legislature to tailor funding for projects in step with economic conditions
  – Provides for greater predictability to agencies and institutions

• Elevates capital review to the level of the operating budget
Key Components of HB 1547

- HB 1547 establishes specific roles for key players
  - SCHEV – evaluate the space and programmatic needs of higher education
  - DGS – value engineering and determining construction method
  - DPB – collect information from agencies for each project request
  - State agencies – require more deliberative planning from agencies
- HB 1547 lists projects over a six-year horizon
  - Projects reflect comprehensive capital needs (i.e., higher education, mental health, natural resources, state parks, public safety)
- HB 1547 proposes about $550 million in funding for previously planned or are ready-to-go projects
- HB 1547 proposes planning funds for both years of the biennium
  - This establishes the next two group of projects that will have the highest priority for funding in future sessions
  - This will provide more accurate cost estimates prior to allocating funds in order to minimize cost overruns
  - Each group of projects being planned have an estimated construction value of about $650 million
How Will the HB 1547 Process Impact Cost Overruns

- Cost overruns are impacted by many factors especially accurate cost estimates and timeliness to bid
  - HB 1547 provides for a dynamic process that will provide project planning before funding is authorized
  - HB 1547 does not authorize more projects than could be reasonably implemented in a fiscal year or biennium meaning projects should begin on time and avoid having to be staged over 5 to 6 years
- HB 1547 will require agencies to justify any cost overruns and demonstrate
  - Value engineering has occurred
  - Nongeneral funds have been utilized to the fullest extent
  - Options such as project scope reductions have been quantified for the legislature
What are the Advantages of the HB 1547 Process?

• Greater information sharing prior to decision-making
  – General Assembly will receive all information simultaneously

• Better reflection of the colleges six-year enrollment and financial plans

• The CIP in HB 1547 is similar to the process followed by local governments and transportation

• Greater flexibility
  – If a college hires a new president with a different strategic vision, that president has the ability to modify the CIP
  • GO does not allow new projects to be swapped for one approved by the voters
Financing the CIP in HB 1547

- Multiple funding options are available
  - General Fund
  - VCBA/ VPBA
  - General Obligation Bonds
  - PPEA

- General Obligation Bonds
  - Requires voter approval
  - Cannot substitute projects once approved

- VCBA / VPBA
  - Legislative approval only
  - Projects can be switched more easily
  - Rate differential with GO has been negligible
    - Typically less than 10 basis points
## Comparison of Debt Options

### Bond Transactions Approved by the Treasury Board
**July 1, 2006 - December 31, 2007**

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<tr>
<th>Issuer</th>
<th>Series</th>
<th>Program</th>
<th>Sale Date</th>
<th>Par</th>
<th>Term (years)</th>
<th>True Interest Cost %</th>
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<tr>
<td>Commonwealth of Virginia</td>
<td>2007B</td>
<td>General Obligation Bonds</td>
<td>11/7/07</td>
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<td>Virginia College Building Authority</td>
<td>2007B</td>
<td>21th Century College and Equipment</td>
<td>5/17/07</td>
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<td>Public Facilities Project Program</td>
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