

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

Issuer	Series	Program	Sale Date	Par	Term (years)	True Interest Cost %
Commonwealth of Virginia	2007B	General Obligation Bonds	11/7/07	\$183,305,000	30	4.30158
Commonwealth of Virginia	2007A	General Obligation Bonds	6/6/07	\$146,110,000	25	4.28045
Virginia College Building Authority	2007B	21th Century College and Equipment	5/17/07	\$132,095,000	20	4.04000
Virginia Public Building Authority	2006B	Public Facilities Project Program	11/15/06	\$215,065,000	20	4.07448
Commonwealth of Virginia	2006B	General Obligation Bonds	11/1/06	\$206,635,000	25	4.00512