CAPITAL OUTLAY OVERVIEW

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Major Issues

• Debt Capacity
• Capital Process
  • 2008 Session Changes
  • HB 29 / 30 (2020 Session)
  • Projects in the Pipeline
Debt Capacity
• Article X, Section 9 provides for the issuance of debt
  • Sections 9(a), 9(b) & 9(c) provide the Full Faith and Credit of the Commonwealth
• 9 (a) debt is reserved to meet emergencies
• 9 (b) debt is often referred to as general obligation or GO debt and requires voter approval
• 9 (c) debt is for revenue-producing capital projects and is authorized by 2/3 vote of the General Assembly
  • Self-supporting in nature; the Governor is required to certify that pledged revenues are sufficient
  • For example, dorm and dining hall projects
• Because it has the Full Faith and Credit of the Commonwealth, this debt receives the highest (AAA) rating from the three rating agencies (Moody's, S & P and Fitch)
Virginia Constitution

• Section 9(d)
  • Authorized by the General Assembly
  • Does not provide Full Faith and Credit
    • Rated as AA debt but actual interest rate has been very close to AAA-rated debt in recent years
    • Repaid from both GF and NGF including auxiliary enterprises and local governments
  • Issued by Commonwealth agencies, institutions and authorities. For example:
    • Virginia College Building Authority (VCBA)
    • Virginia Public Building Authority (VPBA)
    • Commonwealth Transportation Board
    • Virginia Housing Development Authority
Debt Limitations

• Constitution sets limits for 9(a), 9(b) and 9(c) debt
• 9(b) GO debt limits:
  • Total 9(b) GO debt is limited to approximately 115% of average annual income tax and sales tax revenues of prior three fiscal years
  • General Assembly can only authorize up to 25% of the total 9(b) GO limit over a four-year period
  • Debt must mature at the lower of either 30 years or useful life of the project
  • Debt payments are structures with level principal
• 9(c) debt is limited to the same 115% of average annual income tax and sales tax revenues of prior three fiscal years
• 9(d) debt technically has no limitations placed on it by the Virginia Constitution
Commonwealth Policy on Debt Capacity

- In the early 1990s the Commonwealth developed its current debt policy
  - 1990: Appropriation Act required development of a plan for the coordination of the Commonwealth’s borrowing
  - 1991: Executive Order 38 established the Debt Capacity Advisory Committee (DCAC)
  - All three rating agencies mention the DCAC as a positive debt management practice
- DCAC established the policy of limiting tax-supported debt to 5% of revenues
  - Debt service payments are made or ultimately pledged to be made from general funds
  - Corresponds to rating agency definition
Debt Capacity Advisory Committee

• Comprised of:
  • Secretary of Finance
  • State Treasurer
  • DPB Director
  • Auditor of Public Accounts
  • JLARC Director
  • State Comptroller (added under HB 48 in 2010 Session)
  • HAC & SFC Staff Directors (added under HB 48 in 2010 Session)
  • Two citizen members appointed by the Governor

• Committee annually reviews Commonwealth's tax-supported debt and submits to the Governor and to the General Assembly an advisory, non-binding estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium
Commonwealth Debt Capacity

DCAC Model

• DCAC Model considers:
  • Actual debt service on all issued tax-supported debt including capital leases and regional jails
  • Currently authorized but not yet issued tax-supported debt over a ten-year planning horizon
  • 20-year bonds with level debt service payments except for 9(b) which assumes level principal
  • Blended revenues which include general fund, state revenues in the TTF, & ABC profit transfers
    • Official forecasts excluding Lottery funds
    • TTF revenues do not include Highway Maintenance & Operating Funds, Federal grants, or toll revenues
  • Interest rates for all GO debt is based on the Bond Buyer 11 Bond Index
    • 9(d) debt assumed at 50 basis points higher
  • Benchmark is total tax-supported debt service should be less than 5 percent of revenues
Current Outstanding Tax-Supported Debt as of June 30, 2019

- Total outstanding tax-supported debt used in the debt capacity model is about $12.2 billion
- Tax-supported debt is where the debt service payment is made or ultimately pledged to be made from general government funds & corresponds to the rating agency definitions

Source: Commonwealth of Virginia Comprehensive Annual Financial Report
Debt Authorized but Not Issued

As of December 2019

- As of December 2019, there was approximately $4.7 billion in all forms of tax-supported debt authorized but not yet issued
- $2.0 billion in Virginia Public Building Authority (VPBA) debt & $1.7 billion in Virginia College Building Authority (VCBA) debt
  - Primarily from the 2016 bond program
- $863.6 million is transportation related
- $83.0 million of HEETF equipment allocations
DCAC Model Results
December 2019

- Uses current revenue forecast
- Tax-supported debt service less than 5% of blended revenues
- Debt capacity expressed in terms of ten-year average
- Incorporates currently authorized but unissued debt
- Assumes 20-year bonds with level debt service
- Assumes interest rates of between 3.19% and 3.44%
- The DCAC model resulted in an average annual debt capacity of about $765 million over the ten-year period
Net Tax-Supported Debt as a Percentage of Personal Income

Virginia Compared to National State Medians

Debt as a % of Personal Income

Fiscal Year

Moody’s State Debt Medians Report
Net Tax-Supported Debt as a Percentage of Personal Income

Virginia Compared to National State Medians

Debt as a % of Personal Income

Fiscal Year

Moody’s State Debt Medians Report
Capital Outlay Process
Chapter 1, 2008 Special Session 1

• Established a more businesslike approach to capital outlay projects

• Six Year Plan Process
  • Develop a six-year plan in stand alone bill
  • Established a Six-Year Capital Improvement Plan Advisory Committee to convene annually
    • Committee comprised of executive and legislative branch staff
    • Purpose to identify projects for consideration by the Governor and General Assembly for inclusion in the six-year plan
  • Governor submits a bill to develop and recommend revisions to the six-year plan with final approval by the General Assembly
  • The Capital Improvement Plan is the basis for the capital appropriations submitted by the Governor to the General Assembly

• Project Planning
  • Within a biennium, the Governor and General Assembly will designate projects to be either pre-planned or planned up to preliminary drawings for consideration of funding in subsequent fiscal years
  • Preplanning
    • Limited to the lesser of 1% of project cost or $250,000
    • Spells out project scope, general cost estimate and methodology, and programmatic need
    • Agencies allowed to use NGF to advance preplanning and be eligible for reimbursement if the project is funded
  • The intent is to gain further information to determine if the project should be advanced for greater authorization
Chapter 1, 2008 Special Session 1

- Department of General Services
  - Reviews both preplanning and planning documents
  - Maintains the project database
  - Provides expert advice to the Governor and General Assembly
  - Conducts Value engineering
  - Review of cost overruns

- SCHEV Roles and Responsibilities
  - Serves on Six-Year Capital Improvement Plan Advisory Committee
  - Reviews projects for programmatic and space justification
  - Review does not exclude Governor and General Assembly from including projects that do not meet SCHEV specification

- Cost Overruns
  - Prior to requesting supplemental general fund for projects, agencies and institutions are:
    - Required to value engineer
    - Required to look to other fund sources
    - Required to adjust project scope and size
2020 Session: HB 29 / 30
Proposed Projects
HB 29: Capital Outlay

- Introduced budget proposes $109.1 million in new capital outlay spending including:
  - $95.2 million in VCBA / VPBA tax-supported bonds for:
    - $51.1 million to supplement Central State Hospital
    - $28.9 million to supplement three existing higher education projects at CWM, UMW & VCCS
    - $12.0 million to supplement DJJ New Juvenile Justice Center
    - $3.3 million for Dept of Military Affairs for land acquisition
  - $120,000 GF cash to supplement an existing project at the Roanoke Higher Education Authority
  - $13.7 million in 9 (d) NGF revenue bonds
### HB 30 Proposed Projects By Type & Fund Source

<table>
<thead>
<tr>
<th>Project Type</th>
<th>GF</th>
<th>VCBA/VPBA</th>
<th>NGF</th>
<th>9 (c)</th>
<th>9 (d)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction, Renov. &amp; Acq.</td>
<td></td>
<td>$1,197,263,761</td>
<td>$408,631,347</td>
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<td>$1,605,895,108</td>
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<tr>
<td>Higher Ed</td>
<td></td>
<td>161,534,208</td>
<td>132,042,000</td>
<td>279,470,000</td>
<td>396,961,854</td>
<td>970,008,062</td>
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<tr>
<td>Maintenance Reserve</td>
<td></td>
<td>260,000,000</td>
<td>15,000,000</td>
<td></td>
<td></td>
<td>275,000,000</td>
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<tr>
<td>Water Quality Projects</td>
<td></td>
<td>367,000,000</td>
<td></td>
<td></td>
<td></td>
<td>367,000,000</td>
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<tr>
<td>State Parks</td>
<td>133,058,000</td>
<td></td>
<td>8,357,130</td>
<td></td>
<td></td>
<td>141,415,130</td>
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<tr>
<td>Equipment for New Buildings / STARS</td>
<td></td>
<td>173,063,337</td>
<td></td>
<td></td>
<td></td>
<td>173,063,337</td>
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<tr>
<td>Project Supplements</td>
<td></td>
<td>145,700,000</td>
<td></td>
<td></td>
<td></td>
<td>145,700,000</td>
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<tr>
<td>Project Planning</td>
<td>22,956,290</td>
<td></td>
<td>16,171,736</td>
<td></td>
<td></td>
<td>39,128,026</td>
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<tr>
<td><strong>Total</strong></td>
<td>$22,956,290</td>
<td>$2,437,619,306</td>
<td>$580,202,213</td>
<td>$279,470,000</td>
<td>$396,961,854</td>
<td>$3,717,209,663</td>
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</tbody>
</table>
HB 30: Proposed Bond Program

- The introduced budget for capital outlay includes $2.4 billion in tax-supported bonds through the VCBA & VPBA
  - $1.5 billion for new construction, renovation and acquisitions projects which includes $161.5 million for institution-specific projects in higher education & $133.1 million for state parks
    - About $450 million of these projects were not previously planned or authorized
  - $260.0 million for maintenance reserve
  - $367.0 million for stormwater assistance, Alexandria CSO and nutrient removal grants
  - $145.7 million to supplement current projects
  - $93.1 million for equipment in new buildings coming on-line
Other Actions Impacting Debt Capacity

• Two local jail projects have been added or supplemented in Treasury Board at a cost of $1.5 million
  • Riverside Regional Jail - $0.8 million
  • Pr. William - Manassas Regional Jail - $0.7 million

• Higher Education Equipment Trust Fund (HEETF) at $166 million

• In total, the proposed budget will use four years of projected debt capacity
HB 30: Project Planning

• HB 30 proposes $21.3 million GF to conduct preplanning and detailed planning for 14 new projects
  • Projects have an estimated total construction cost in excess of $500 million

• In addition, $16.2 million NGF is authorized to conduct preplanning and detailed planning for six new higher education projects
  • These projects have an estimated total construction cost in excess of $500 million

• Finally, while the introduced budget recommends almost $600 million in new projects that had not yet been authorized or planned, nine previously planned projects with an estimated construction cost of $600 million and are ready to proceed are not included in the proposed capital outlay
  • $1.6 million GF is provided to continue planning for two of the previously authorized projects
Projects in the Pipeline
Ten projects previously approved for planning are in the pipeline for funding and are ready to go now or within two years = $600+ million – these are not funded in the Introduced Budget

<table>
<thead>
<tr>
<th>Agency</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>DGS</td>
<td>Renovate Supreme Court</td>
</tr>
<tr>
<td>DGS</td>
<td>Improvements Pocahontas for Supreme Court</td>
</tr>
<tr>
<td>Frontier Culture</td>
<td>Construct Crossing Gallery</td>
</tr>
<tr>
<td>Longwood</td>
<td>Wygal Hall Replacement</td>
</tr>
<tr>
<td>William &amp; Mary</td>
<td>Integrated Science Ctr, Phase IV</td>
</tr>
<tr>
<td>VCU</td>
<td>Construct Art &amp; Innovation Bldg</td>
</tr>
<tr>
<td>VCCS, Va Highlands CC</td>
<td>Renovate Learning Resource Center</td>
</tr>
<tr>
<td>Museum of Natural History</td>
<td>Construct Waynesboro Site</td>
</tr>
<tr>
<td>VSDB</td>
<td>Renovate Main Hall</td>
</tr>
<tr>
<td>Virginia Tech</td>
<td>Construct Undergraduate Labs Bldg</td>
</tr>
</tbody>
</table>
New Projects Proposed for Planning

- Twenty new projects are proposed for planning and would be added to the pipeline = $1 billion +

<table>
<thead>
<tr>
<th>Agency</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>DGS</td>
<td>Construct New Office Bldg &amp; Parking Garage at 7th &amp; Main Street</td>
</tr>
<tr>
<td>VDACS</td>
<td>Warrenton &amp; Lynchburg Lab Expansion</td>
</tr>
<tr>
<td>CNU</td>
<td>Integrated Science Ctr (Phase III) *</td>
</tr>
<tr>
<td>GMU</td>
<td>Construct Virtual Online Campus *</td>
</tr>
<tr>
<td>GMU</td>
<td>Construct Advanced Computer Infrastructure *</td>
</tr>
<tr>
<td>Gunston Hall</td>
<td>Construct New Archeology &amp; Maintenance Bldg</td>
</tr>
<tr>
<td>JMU</td>
<td>Expand Carrier Library *</td>
</tr>
<tr>
<td>ODU</td>
<td>Construct New Biology Building *</td>
</tr>
<tr>
<td>UMW</td>
<td>New Theater &amp; Renovate Performing Arts Bldg</td>
</tr>
</tbody>
</table>
### New Projects Proposed for Planning (cont.)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>VCU</td>
<td>Interdisciplinary Classroom &amp; Lab Bldg *</td>
</tr>
<tr>
<td>VCCS, Tidewater CC</td>
<td>Construct Advanced CTE &amp; Workforce Center</td>
</tr>
<tr>
<td>VIMS</td>
<td>Construct New Fisheries Bldg</td>
</tr>
<tr>
<td>VSU Extension</td>
<td>Renovate Summerseat for Agriculture Center</td>
</tr>
<tr>
<td>DBHDS</td>
<td>Food Service Renovations</td>
</tr>
<tr>
<td>DBHDS</td>
<td>Eastern State Hospital, Phase 4</td>
</tr>
<tr>
<td>Corrections</td>
<td>Deerfield Correctional Center Expansion</td>
</tr>
<tr>
<td>Corrections</td>
<td>Powhatan Infirmary</td>
</tr>
<tr>
<td>State Police</td>
<td>New Area 5 Office</td>
</tr>
<tr>
<td>State Police</td>
<td>New Area 11 Office</td>
</tr>
<tr>
<td>State Police</td>
<td>Replace Training Academy</td>
</tr>
</tbody>
</table>

Projects with * are funded with NGF
Summary of Projects in Pipeline

• $600 million of projects have been authorized and already begun planning

• $1+ billion in new projects are proposed for planning
  • Planning has not yet begun so project costs may be underestimated
  • Projects do not necessarily reflect top priority for agency or institution
  • Given size of HB 29/30 proposed bonds, this may place greater strain on limited debt capacity
Commonwealth Capital Financing
Needs of Other Entities
Private Colleges

- Private Colleges recently have made a push to have the Commonwealth finance their capital projects
  - Based on some of the findings of the HJR 91 Commission (2008 Session), private colleges would like the state to take a more active and direct role in funding private college facilities

- Capital support could take the form of:
  - Direct state funding of facilities on private college campuses
  - Grants to private colleges to support capital construction
  - State match for capital construction
  - Credit enhancement to allow private colleges to borrow funds by leveraging state credit rating

- Policy issues:
  - A fuller discussion of the constitutional implications is necessary (Article 8, Sections 10 and 11)
  - State debt capacity is limited and taking on support of private colleges could result in the state not meeting its core requirements
  - This could also open the door to other entities coming forward requesting the state assume responsibility for their capital needs