



# Capital Outlay Update

## House Appropriations Committee

Andrea Peeks  
November 14, 2022

# Overview

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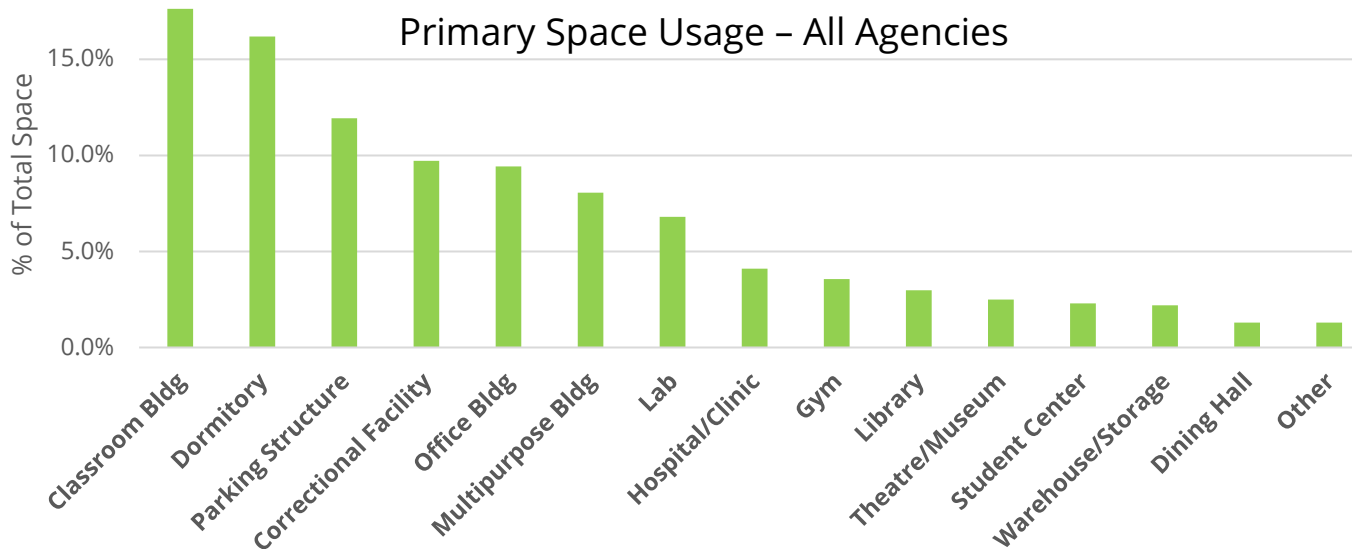
## • **Capital Outlay Basics**

- **Types of capital, funding methods, recent actions**
- Project Cost Increases
  - Recent drivers and future implications
- Existing Funding Commitments
  - Construction, equipment, and supplements
- Capital Priorities for the 2023 Session



# Capital Outlay Basics

- Virginia owns over 145 million gross square feet (GSF) of building space
  - 70% is owned by institutions of higher education, of which ~55% is GF-supported, and 30% is owned by state agencies
  - Historic growth of total GSF owned statewide averages 3% annually



Total GSF includes state-owned properties tracked in the state's real estate and assets management system, COVA Trax, as of October 2022, plus VDOT & VPA. Does not include data for other entities not required to report in COVA Trax: ABC, DWR, DEQ, Aviation, New College Inst., & VEC.



# Types of Capital Outlay

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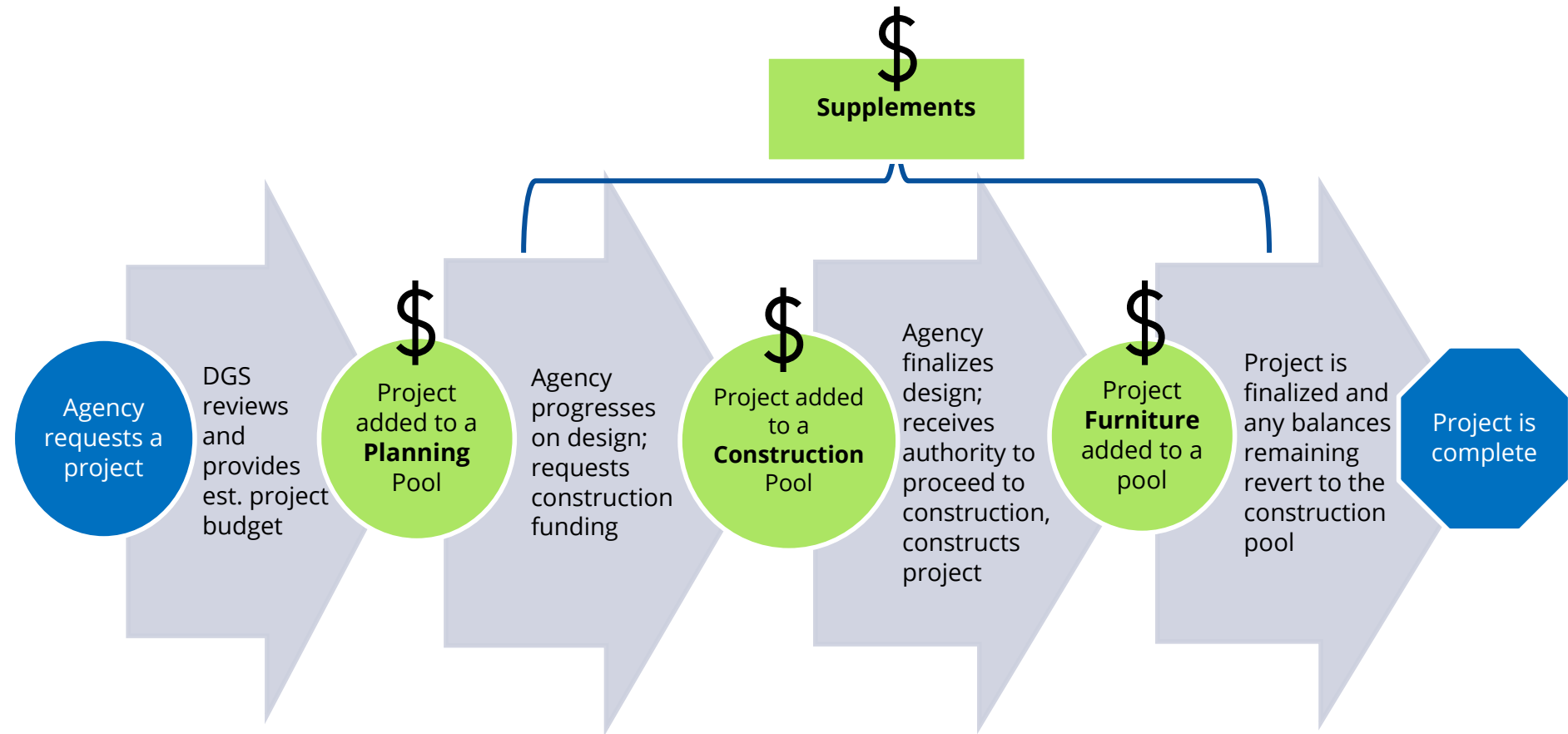
# Capital Outlay Funding – Pool Process

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- The pool process was established in 2008
  - Ideal for GF projects (i.e., those financed with cash and/or GF-supported debt)
  - Allows for operational and procurement efficiencies
  - Pools receive a single, total appropriation equal to the sum of all projects in the pool
  - As projects progress and cost estimates are refined, funding is administratively moved between projects and an overall total is maintained for the pool as a whole
    - Until this year, shortfalls have been addressed via overage transfers from other pools and centrally-allocated supplements



# Pool Process Funding Points



*Process simplified to show general progression of a project funded via the pool process*



# Capital Outlay Funding – Stand Alone

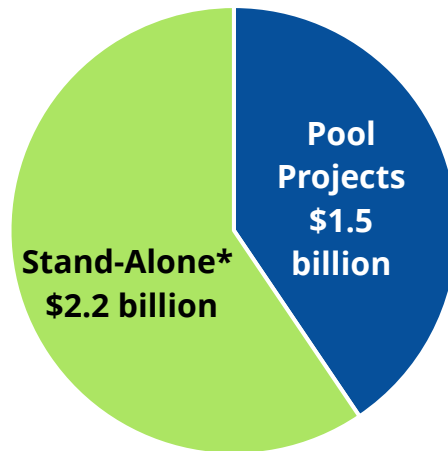
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- Stand-alone projects are set-out individually and not in a pool
  - Projects of all sizes funded entirely with NGF
  - Replacement/repair projects funded fully or partially with GF:
    - Improvement projects: Medium-to-large maintenance reserve (MR)-type project
    - Umbrella projects: A series of similar MR-type projects for one or multiple facilities, or different MR-type projects for one facility
    - Designated infrastructure accounts (ex: DOC Infrastructure Fund, DCR parks deferred maintenance, etc.)
- Maintenance Reserve:
  - Repair/upkeep projects under \$2.0 million (\$4.0 million if a roof project); annual allocation provided for all GF-supported facilities
  - Total amount appropriated is allocated to state entities according to a new methodology that considers buildings

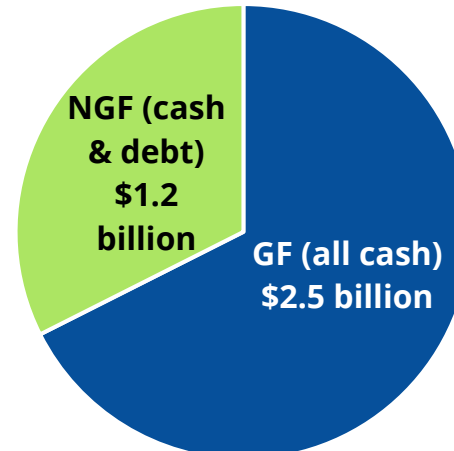
# Capital Actions in the 2022 Session

- In 2022, the General Assembly funded \$3.7 billion in capital
  - Advanced over 100 projects without adding tax-supported debt
  - Prioritized projects already in the pipeline, that provide improvements or life/safety compliance, or enhance accessibility
  - Provided \$450.0 million to supplement previously-authorized projects

**2022 Capital – Project Type**



**2022 Capital – Funding Source**



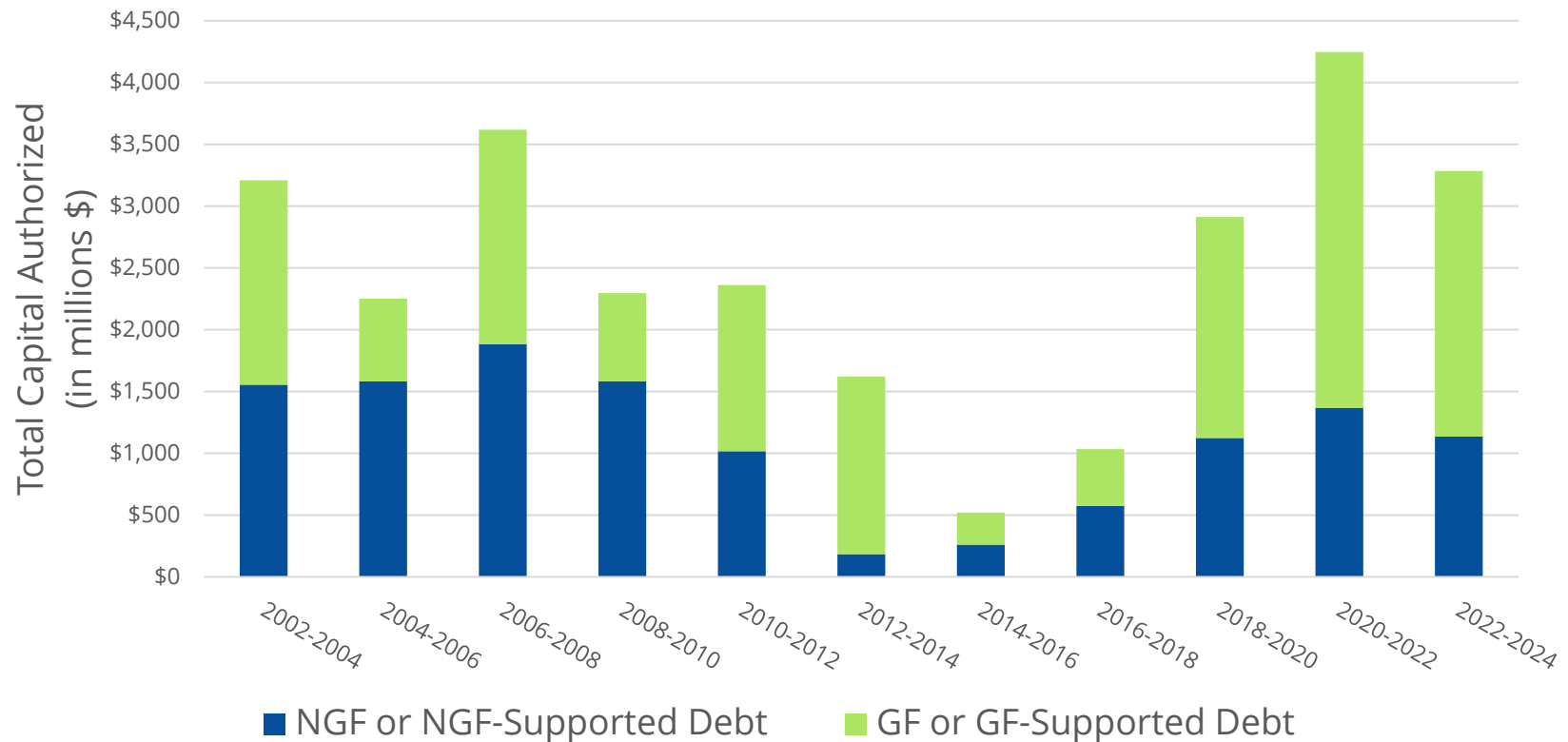
\*Of the total \$2.2 billion in authorization for stand-alone projects, over \$1.0 billion was for projects for the Virginia Port Authority





# Capital Outlay Funding History

- The state has authorized \$27.4 billion in capital since 2002
- 38% of these projects have been authorized since 2021
  - 2022 GF cash infusion to capital was the largest in state history



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# Project Costs Are Increasing

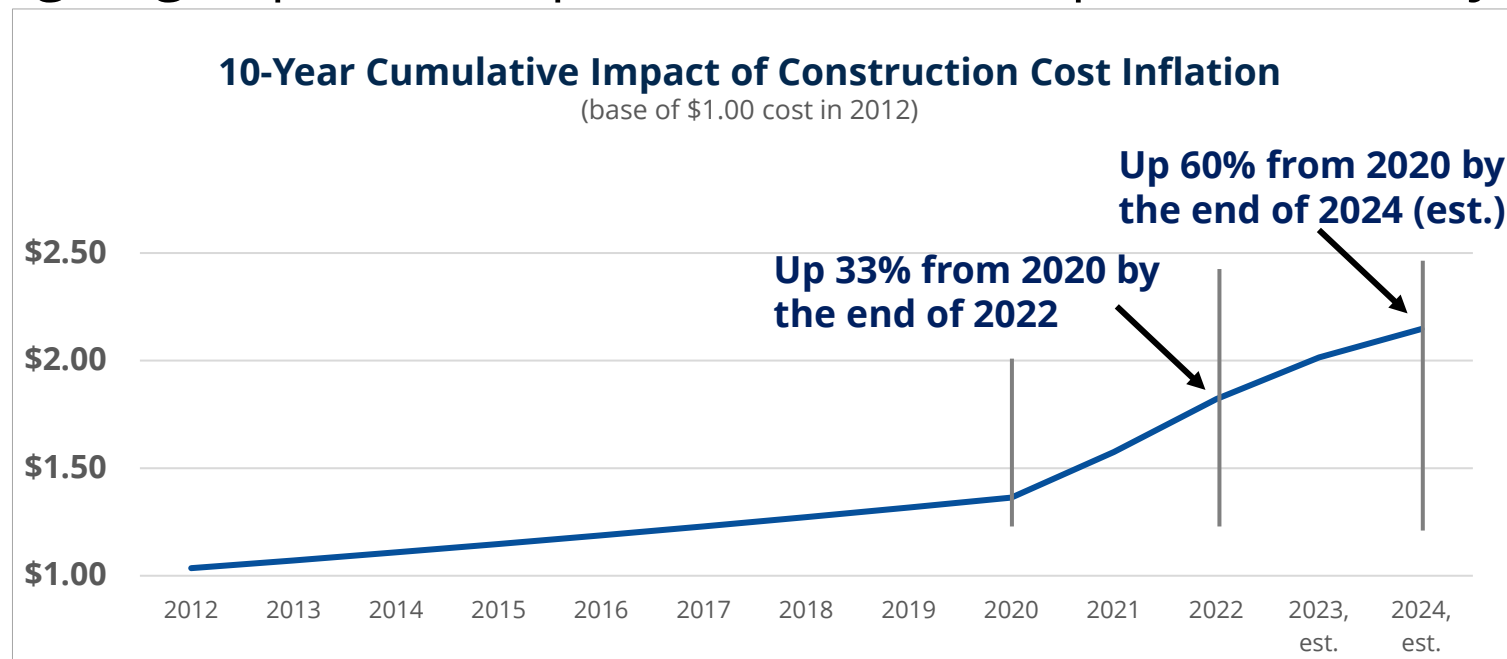
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- Main factors driving recent cost increases:
  - Market volatility/inflation
  - Global and domestic supply chain challenges
  - State prevailing wage requirements
- Percentage increase varies by project and depends on:
  - Project size, scope, and complexity
  - Agency capacity
  - Time since the project was authorized for planning or construction
  - Additional project requirements
  - Dependence on outside actors; etc.
- While economic projections foresee a softening rate of cost inflation due to pandemic supply chain issues, costs may be permanently higher due to continued high rates of inflation



# Calculating Cost Inflation

- Measurement of annual inflation based on price changes for a standard construction “basket of goods”
- Recent annual inflation averaged between 3.0% and 4.5% until 2021
- Ongoing impact anticipated as rates compound annually



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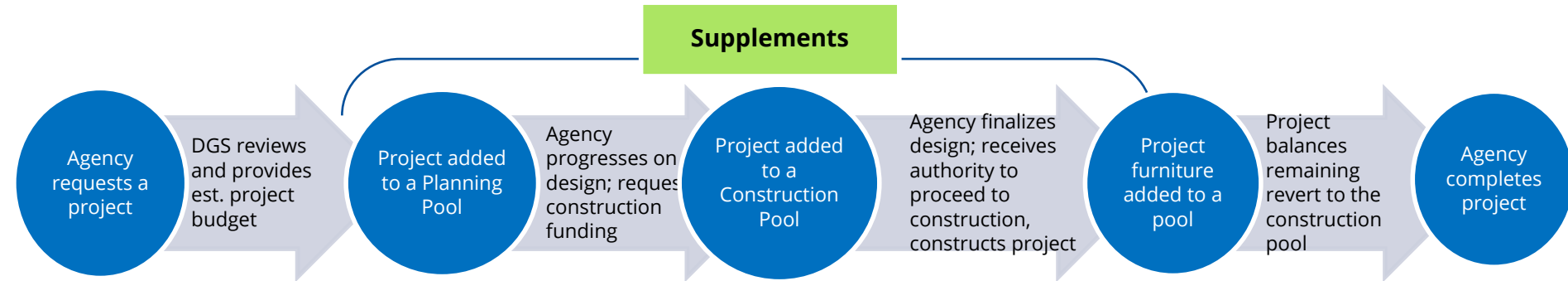
# Obligation to Fund Previously-Authorized Projects

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- Significant funding may be needed in the near-term to support previously-authorized projects
- Timing of specific funding need depends on many factors
  - Project timing, size, scope, and complexity
  - Agency capacity and cooperation of outside entities
  - Market and supply chain conditions
  - Agency/institution ability to provide NGF support



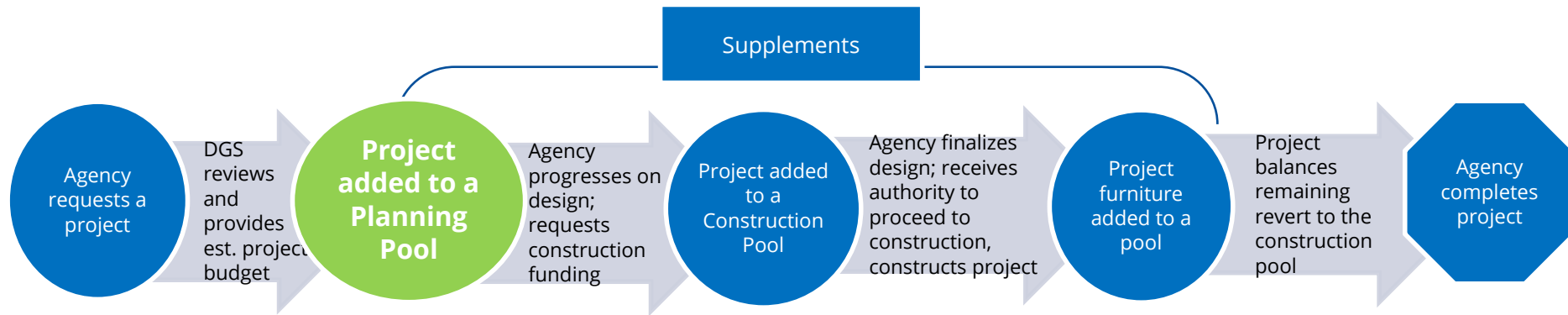
# Supplement Funding



- ~\$5.5 billion in previously-authorized projects may require additional funding
- Any new supplements would be addition to the \$450.0 million provided in 2022
- Total additional need depends on project timing, complexity, scope, compounded market conditions at time of construction, and agency ability to reduce scope, provide NGF, and/or value engineer



# Construction Funding

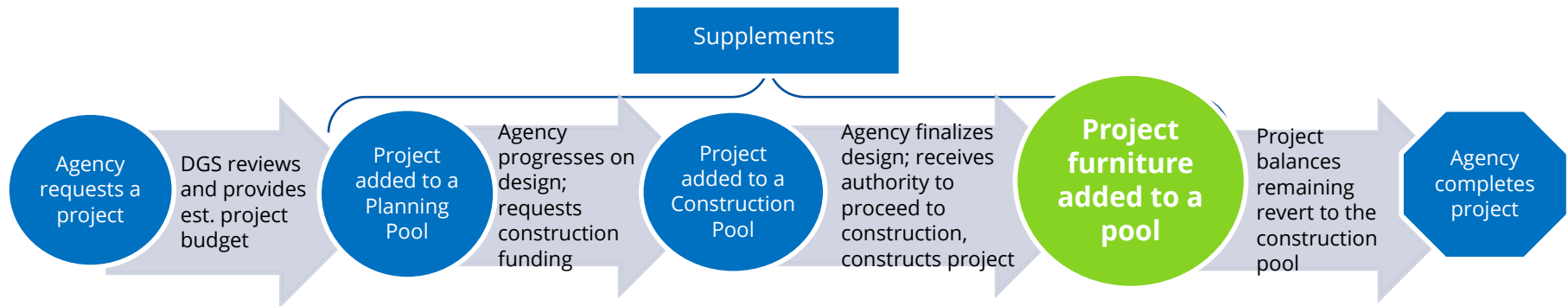


- ~\$1.4 billion for previously-authorized projects still being planned for which construction funding has not yet been authorized
- Cost estimate based on latest available project information and includes all funds
- The state already has committed millions of dollars to design these projects and delays in proceeding to construction may compound costs





# Furniture, Fixtures, and Equipment (FF&E)



- Funding for FF&E is not provided until near project completion
- Total FF&E cost for currently-authorized projects could range from ~\$300-\$500 million
  - Estimate is for all projects currently authorized
- Total cost and timing variable and based on overall project progress and composition



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# Top Priorities

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- Fund existing commitments for previously-authorized projects
  - Construction
  - Equipment
  - Supplements
- Address new critical life/safety and infrastructure needs
- Increase funding for the maintenance and renovation of existing facilities



# Priority: Existing Commitments

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- Have authorized over \$6.8 billion in GF-supported capital since 2019; need to allow time for these projects to progress
- Of the previously-approved projects in the pipeline:
  - ~\$1.4 billion for construction for projects previously-authorized for planning
  - ~\$300-\$500 million for FF&E for projects previously authorized
  - Additional funds for project supplements as needed
- Timing uncertainty
  - Depends on a wide variety of factors and likely that only a portion of these obligations will come due in the current biennium, but full bill will come due in near future



# Priority: New Critical Needs

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- Immediate, stand-alone infrastructure repairs
  - Boilers, chillers, water drainage lines and piping, HVAC systems, steam distribution systems, etc.
- Life/Safety
  - Demolish derelict structures
  - Address ADA compliance issues
  - Replace faulty underground storage tanks
- Opportunities that promote economic development and/or enhance community health priorities
- Estimated cost ~\$300.0 million



# Priority: Enhance Funding to Maximize Life and Use of Existing Facilities

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- Need to address substantial deferred maintenance backlog
  - Diligent upkeep extends overall facility life and usefulness, maximizes prior investments, and reduces future costs
  - 50-year building standard still requires ongoing maintenance and a significant refresh near the lifespan mid-point
- Three-fold approach:
  - Smaller-scale/ongoing upkeep needs addressed by an increased maintenance reserve allocation
  - Medium-scale projects addressed as umbrella projects or stand-alone improvements
  - Large-scale renovations, repairs, and/or replacements should be a top priority for future capital pools



# Priority: Adhere to Process

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- The capital outlay process established in 2008 has helped to provide greater control and visibility on cost increases
  - Some minor process adjustments may be needed, but the overall structure remains sound
- Going forward, continued adherence to process principles is critical for maximum efficiency and effectiveness
  - Require planning prior to authorizing construction
  - Utilize funding pools where feasible
  - Track progress of approved projects to maintain cost visibility
  - Continue ongoing oversight by the Six-Year Capital Outlay Plan Advisory Committee



# QUESTIONS?

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