



Capital Outlay Subcommittee Capital Outlay Overview

January 18, 2021

Prepared by House Appropriations Committee Staff

Major Issues

- Debt Capacity
- Capital Outlay Process
- HB 1800, Introduced Proposed Projects
- Projects in the Pipeline



DEBT CAPACITY



Virginia Constitution

- 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



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)
 - 1994: DCAC statutorily established (Chapter 43, 1994 Acts of Assembly)
 - 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

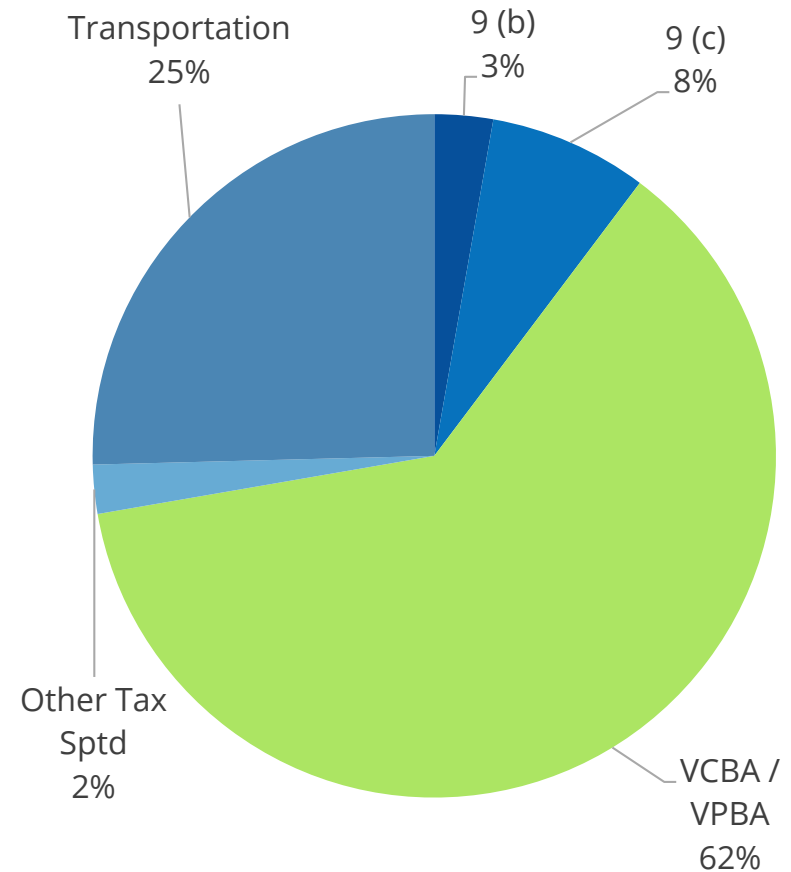
DCAC Model

- 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, 2020

- Total outstanding tax-supported debt used in the debt capacity model is about \$12.0 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 2020

- As of December 2020, there was approximately \$6.1 billion in all forms of tax-supported debt authorized but not yet issued
 - \$2.5 billion in Virginia Public Building Authority (VPBA) debt & \$2.6 billion in Virginia College Building Authority (VCBA) debt
 - \$863.6 million is transportation related
 - \$181.3 million of HEETF equipment allocations
- VCBA and VPBA amounts increase is driven by the bond program from the 2020 Session
 - The 2020 Introduced budget proposed over \$2.4 billion in new VCBA / VPBA debt
 - The adopted budget reduced total debt by over \$400 million



DCAC Model Results

December 2020

- 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 2.75% and 3.00%
- The DCAC model resulted in an average annual debt capacity of about \$544 million over the ten-year period



CAPITAL OUTLAY PROCESS



Chapter 1, 2008 Special Session 1

- Established a more businesslike approach to capital outlay projects
- Six Year Plan
 - Develop a six-year plan in stand alone bill
 - A Six-Year Capital Improvement Plan Advisory Committee will 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 will submit a bill to develop and recommend revisions to the six-year plan with final approval by the General Assembly
 - The Capital Improvement Plan will be 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
 - Spell out project scope, general cost estimate and methodology and programmatic need
 - Agencies will be 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

- Dept. of General Services
 - Review both preplanning and planning documents
 - Maintain the project database
 - Provide expert advice to the Governor and General Assembly
 - Value engineering
 - Review of cost overruns
- SCHEV Roles and Responsibilities
 - Serve on Six-Year Capital Improvement Plan Advisory Committee
 - Review 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



HB 1800, INTRODUCED PROPOSED PROJECTS



HB 1800: Capital Outlay

- Introduced budget proposes \$219.2 million in new capital outlay spending including:
 - \$135.5 million in VCBA / VPBA tax-supported bonds
 - \$18.0 million GF primarily for project planning
 - \$34.1 million in 9 (c) NGF revenue bonds at VT primarily for the Innovation Campus
 - \$21.0 million in 9 (d) NGF revenue bonds primarily for the GMU Aquatic & Fitness Center
 - \$10.5 million NGF cash that includes projects in Forestry, State Parks, DMV & DMA



HB 1800: \$135.5 million Proposed VCBA / VPBA Bonds

- Standalone repair, safety and infrastructure projects
 - \$4.5 million to waterproof State Capitol Visitor Center
 - \$3.7 million HVAC Repairs at Longwood
 - \$34.0 million Campuswide HVAC Repairs at VSU
 - \$5.0 million infrastructure repairs at SMV
 - \$1.7 million repairs at Vet Care Centers
 - \$3.0 million Fire Safety & Security at DMA
- \$58.5 million to supplement the Central State Hospital project and increase capacity by 48 beds
- \$11.7 million in a capital outlay pool for six repair projects
- \$6.6 million to supplement workforce development projects
- \$6.8 million for equipment in new buildings coming on-line



PROJECTS IN THE PIPELINE



Projects Previously Approved for Planning

Agency	Project
DGS	New Supreme Court Building
DGS	State Office Building / Parking Deck
ODU	Construct New Biology Building
Longwood	Wygat Hall Replacement
William & Mary	Integrated Science Ctr, Phase IV
VCU	Construct Art & Innovation Bldg
VCU	Construct Classroom / Lab Building
NSU	Renovate / Replace Fine Arts Center
Virginia Tech	Construct Undergraduate Labs Bldg
Virginia Tech	Replace Randolph Hall
JMU	Renovate / Expand Carrier Library
UMW	Construct Fine & Performing Arts



Projects Previously Approved for Planning

Agency	Project
State Police	Construct Division 6 Headquarters
State Police	Replace Training Academy
Frontier Culture	Construct Crossing Gallery
VMI	Construct Center for Leadership, Phase II
VSU Extension	Renovate Summerseat for Urban Agric Ctr
DBHDS	Eastern State Hospital, Phase 4
DBHDS	Food Service Renovations Statewide
Museum of Natural History	Construct Waynesboro Site
VCCS	Renovate Amherst Hall, Central Va
VCCS	Replace French Slaughter Bldg, Germanna
Corrections	Powhatan Infirmary Replacement
Corrections	Expand Deerfield Correctional Center



Projects Previously Approved for Planning

Agency	Project
VSDB	Renovate Main Hall and Repair Chapel
CNU	Integrated Science Center, Phase III
GMU	Academic VII-STEM Bldg, Sci & Tech Campus
GMU	Renovate Space for Online Campus
GMU	Construct Hybrid Learning Labs
Gunston Hall	Construct New Archaeology & Maintenance Facilities

