

# CAPITAL OUTLAY





VIRGINIA HOUSE  
APPROPRIATIONS  
COMMITTEE

CHAIRMAN LUKE E. TORIAN

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# CAPITAL OUTLAY AND GENERAL GOV'T

# INTRODUCTION TO CAPITAL OUTLAY

- Virginia owns and operates more than 149 million gross square feet (gsf) of buildings located on nearly 475,000 acres
  - Properties include: buildings at state institutions of higher education, state hospital facilities and clinics, forensic labs, state park campgrounds and cabins, state police headquarters and training facilities, DMV offices, and more
- By definition, “Capital project” includes:
  - Any acquisition project
  - Improvements to existing facilities that cost more than \$3.0 million
  - Construction that costs more than \$3.0 million, or is more than 5,000 square feet
    - Note: does *not* include transportation projects

# INTRODUCTION TO CAPITAL OUTLAY

- Capital outlay funding is contained within Part 2 of the budget and is typically the single largest category of one-time spending in the budget
- The processes and funding mechanisms for capital differ from those of the operating portions of the budget; for example, capital is one of very few expenses for which debt can be used
- Capital outlay funding, while one-time in nature, is automatically carried forward into future fiscal years until spent or otherwise rescinded

# CAPITAL POOL PROCESS & PIPELINE

- Since 2008, Virginia has utilized a pool funding process for the authorization and financing of most capital projects
- Under this model, a group of projects is authorized in a “pool” with a single total budget, allowing flexibility for individual project cost fluctuation and preserving the state’s ability to garner competitive pricing by preserving specific project cost estimates
- Typically, the capital outlay budget will include separate pool authorizations for projects in the following stages:
  - Planning
  - Construction
  - Supplements
  - Furniture, fixtures, and equipment (FF&E)

# CAPITAL POOL PROCESS & PIPELINE

- Depending on a project's size, scale, scope, and complexity, it may require separate and specific authorizations in the budget to advance to the next stage/pool
- This allows time for the project's design to advance and have more finite construction cost estimate, ideally reducing large cost overruns on previously-approved projects
- The various stages that require authorization can include:
  - Preplanning- usually \$250,000
  - Detailed planning – approximately 5% of a project total estimated cost
  - Acquisition/Demolition/Construction
  - Furniture, fixtures, & equipment (FF&E)

# TYPES OF NON-POOL CAPITAL

- While most capital projects are authorized and funded via a pool, those funded outside of the pool process include:
  - **Stand-alone projects:** Often funded with NGF revenue (Exs: DMV, VDOT, higher ed auxiliary projects), or funded with 9(c) or 9(d) revenue bonds; language scope changes; or specific project listed as stand-alone at the initial planning stages
  - **Umbrella projects:** A group of smaller projects that address a larger goal and are funded with one total (ex: addressing ADA issues on a school campus); these are not eligible for supplements or cost overruns
  - **Capital leases:** Per accounting standards, these are considered capital outlay and count towards the state debt capacity
  - **Emergency projects:** Projects authorized by the Governor that are entirely NGF, result in a measurable benefit to the state, are an emergency, or are a gift

# MAINTENANCE RESERVE (MR)

- “Maintenance reserve (MR)” refers to funding in the capital budget provided to state entities that own property for them to use to maintain existing facilities
- MR funding is a constant in the capital budget but the size of the budget varies dramatically based on revenue availability
  - 2026-2028 biennium: \$400 million is proposed in HB 30
  - 2024-2026 biennium: \$464 million was provided
- The allocation of MR among state entities is based on facility condition data collected by DGS, with adjustments made as necessary to address targeted scenarios and priorities

# CAPITAL PROCESS: "6-PAC"

- The Six-Year Capital Outlay Plan Advisory Committee ("6-PAC") oversees capital projects, processes, and procedures
- The 6-PAC is comprised of members of the executive and legislative branches, as follows:
  - Staff Director, House Appropriations Committee (HAC)
  - Staff Director, Senate Finance & Appropriations Committee (SFAC)
  - Secretary of Finance
  - Director, Department of General Services (DGS)
  - Director, Department of Planning and Budget (DPB)
  - Director, State Council of Higher Education for Virginia (SCHEV)
- The 6-PAC meets as needed to review capital project status, market and industry trends, project-specific concerns, future capital needs, process alterations, and to authorize, as appropriate, funding transfers from capital pools

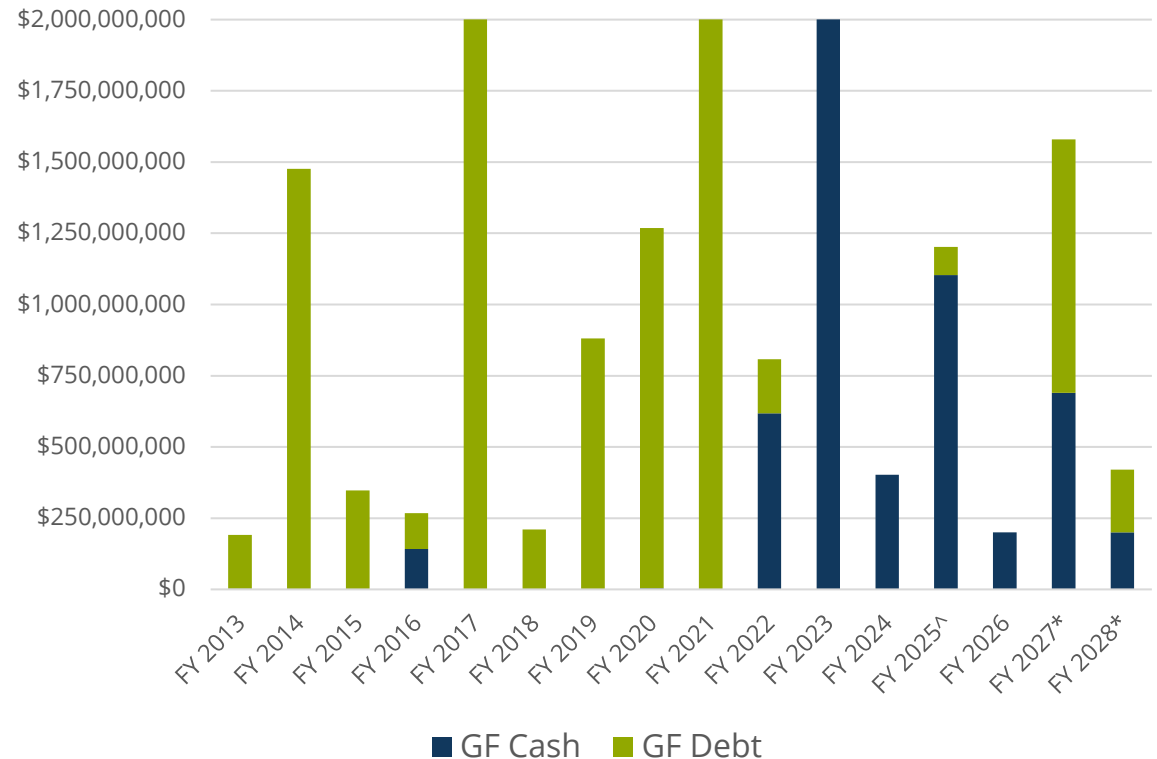
# CAPITAL FUNDING

- Virtually all types of funds in the state budget can be—and are—utilized to support capital outlay projects
- Projects that receive GF (either cash or tax-supported debt) are required to follow stricter state processes with additional oversight
  - Depending on their status, some institutes of higher education have more autonomy regarding capital
- Certain criteria have historically been followed to determine NGF contributions to a project
  - For example, projects (or portions thereof) that will be used for higher education research purposes are typically funded 50/50, GF/NGF (higher education support)

# GF CAPITAL ALLOCATION HISTORY

- Recent budgets have utilized one-time GF cash balances to fund capital outlay needs
- HB 30 as introduced proposes a return to utilizing GF debt (more than cash) to support capital costs

GF-Supported Capital Outlay Authorizations  
FY 2013- FY 2028



<sup>^</sup> = Funding after Governor's veto of \$691.3M GF cash and \$71.2M GF debt

\* = Amounts as proposed in HB 30 as Introduced

# USING DEBT FOR CAPITAL

- As previously mentioned, capital is one of the few budget items for which the state can issue debt
- Article X, Section 9 of Virginia's Constitution governs the type and amount of debt that can be issued
- The Constitution outlines four main types of debt, each of which is referred to by its assigned Constitutional citation:
  - Sections 9(a), 9(b), 9(c), and 9(d) debt

# DEBT: SECTIONS 9(A), 9(B), & 9(C)

- Debt authorized by sections 9(a), 9(b) & 9(c) of Article X, Section 9 of the Virginia Constitution, is backed by the “Full Faith and Credit” of the Commonwealth
  - That means that the state is committed to paying the debt even if other revenues fall short
  - Due to this guarantee, these types of debt earn the highest bond rating (AAA) and best interest rates
- Characteristics:
  - **9(a):** Reserved for emergencies; has not been used
  - **9(b):** Requires voter approval via referendum; also known as general obligation (GO) debt
  - **9(c):** For self-supporting revenue-producing projects; authorized by a 2/3 vote of the General Assembly after the Governor certifies that revenues are sufficient (Ex: dorm projects)

# 9(B) AND 9(C) DEBT LIMITATIONS

- **9(b)**, and **9(c)** debt limits per the Virginia Constitution:
  - **9(b)**: 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 project useful life
    - Debt payments are structured with level principal
  - **9(c)**: Limited to the 115% of average annual income tax and sales tax revenues of prior three fiscal years

# SECTION 9(D) DEBT

- Section **9(d)** debt is not backed by the “Full Faith and Credit of the Commonwealth”
  - Slightly lower bond rating (AA), approximately 5 to 25 basis points above AAA rating in recent years
  - Debt can be repaid from both GF and NGF sources including auxiliary enterprises and local governments
  - Technically has no limitations on issuance
- Issued by state entities such as:
  - Virginia College Building Authority (VCBA)
  - Virginia Public Building Authority (VPBA)
  - Commonwealth Transportation Board (CTB)
  - Virginia Housing Development Authority (VHDA)
- **Most debt issued in recent years has been 9(d)**

# DEBT CAPACITY ADVISORY COMMITTEE (DCAC)

## DCAC membership:

- Secretary of Finance
- State Treasurer
- DPB Director
- Auditor of Public Accounts
- JLARC Director
- State Comptroller
- HAC & SFAC Staff Directors
- Two citizen members appointed by the Governor

- The DCAC expands upon the Constitutional requirements to establish more specific limitations and guidelines regarding state debt issuance
- DCAC annually reviews the Commonwealth's tax-supported debt and submits to the Governor and the General Assembly an advisory, non-binding estimate of the maximum amount of new tax-supported debt that may prudently be authorized for the next biennium

# DCAC'S DEBT MODEL

***Policy: Total debt service = less than 5% of state blended revenues over 10-year horizon, based on:***

- Actual debt service on all *issued* tax-supported debt- including capital leases, regional jails, installment purchases, and some transportation projects, and
- Assumed debt service on authorized debt but *not yet* issued debt over the next ten-year planning horizon
- 20-year bonds with level debt service payments (except 9(b)- level principal)
- Blended revenues including GF, state revenues in the Transportation Trust Fund (TTF), Route 58 and Special Structures programs, ABC profit transfers, and Virginia Healthcare Fund revenue
- Interest rates for GO debt based on the Bond Buyer 11 Bond Index; 9(d) debt assumed at 25 basis points higher

# DCAC MODEL RESULTS

- 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 average interest rate of 4.26%

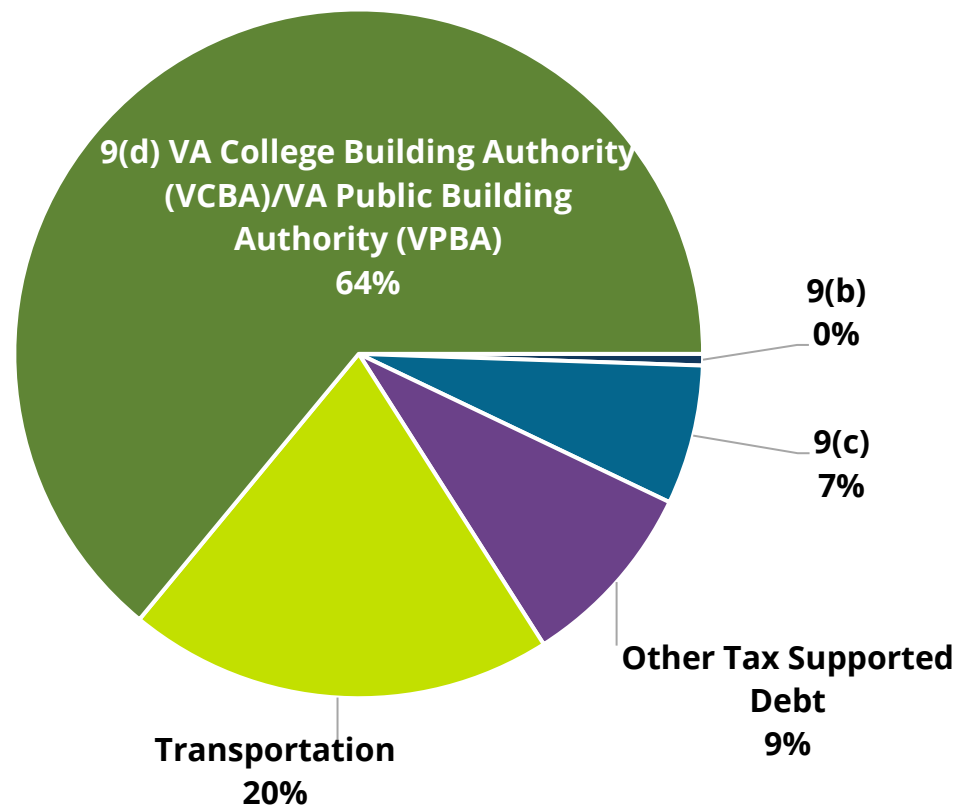
**Overall: the 2025 DCAC model shows that an additional **\$1.5 billion** in additional debt could be authorized and issued in each of fiscal years 2027 and 2028**

# OUTSTANDING CAPITAL TAX-SUPPORTED DEBT (AS OF JUNE 30, 2025)

Total outstanding tax-supported debt used in the debt capacity model was **\$14.1 billion** as of June 30, 2025

Debt service payments are made or ultimately pledged to be made from the general fund; in doing so, it corresponds with the rating agency definitions

## Allocation of Outstanding Tax-Supported Debt



# DEBT AUTHORIZED BUT NOT ISSUED

- As of December 2025, there was **\$3.7 billion** in tax-supported capital debt authorized but not yet issued; this is in addition to the debt already issued (and detailed on the prior slide):
  - \$1.4 billion in transportation-related debt\*
  - \$1.3 billion in Virginia Public Building Authority (VPBA) debt
  - \$812.6 million in Virginia College Building Authority (VCBA) debt
  - \$192.8 million of HEETF equipment allocations
- These not-yet-issued debts count towards the debt capacity limit and impact the recommended limit of additional debt that could be issued in the next biennium

*\*Of the \$1.4B in transportation-related debt, \$1.0B is for special structures as authorized by CH327, 2025 Acts of Assembly*

*Source: Debt Capacity Advisory Committee Report to the Governor and the General Assembly, December 2025*

# CAPITAL POLICY CONSIDERATIONS

- **Deferred maintenance backlogs:** While significant efforts have been made in recent years, a large need remains to address facility repair, replacement and/or renovation of existing state facilities; needs to be addressed expediently to avoid higher costs in the future
- **Capital outlay process:** where feasible, capital funding should prioritize projects already in the pipeline and prepared for the next stage of funding; this avoids costly delays and leverages funding already spent
- **State Funding for Private Colleges:** policy concerns exist in providing state funding for private college capital needs
  - Historic reasoning points to findings of the HJR 91 Commission (2008)
  - Merits a discussion of the constitutional implications (Article 8, Sections 10 & 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 open the door to other entities coming forward requesting the state assume responsibility for their capital needs



# GENERAL GOVERNMENT

# WHAT IS GENERAL GOVERNMENT?

## Legislative Branch

- General Assembly, Auditor of Public Accounts (APA), Capitol Police, Division of Legislative Automated Systems (DLAS), Division of Legislative Services (DLS), all Legislative Commissions (standalone and within DLS)

## Judicial Branch

- Supreme Court and Court of Appeals; Circuit, General District, and Juvenile and Domestic Relations Courts; Board of Bar Examiners; Indigent Defense Commission; Judicial Inquiry and Review Commission; Virginia Criminal Sentencing Commission; Virginia State Bar; Magistrate System

## Executive Offices

- Office of the Governor, Lt. Governor's Office, Office of the Attorney General, Secretary of the Commonwealth

# WHAT IS GENERAL GOVERNMENT?

## Administration Secretariat

- Compensation Board, Department of General Services (DGS), Department of Human Resource Management (DHRM)- excluding Administration of Health Insurance (part of Compensation), Department of Elections, Virginia Information Technologies Agency (VITA)

## Finance Secretariat

- Department of Taxation (TAX), Department of Accounts (DOA), Department of Planning and Budget (DPB), Department of the Treasury, Board of Accountancy (BOA)
- Excludes Department of Accounts Transfer Payments (considered a part of revenues), and Treasury Board (considered a part of capital outlay)

# WHAT IS GENERAL GOVERNMENT?

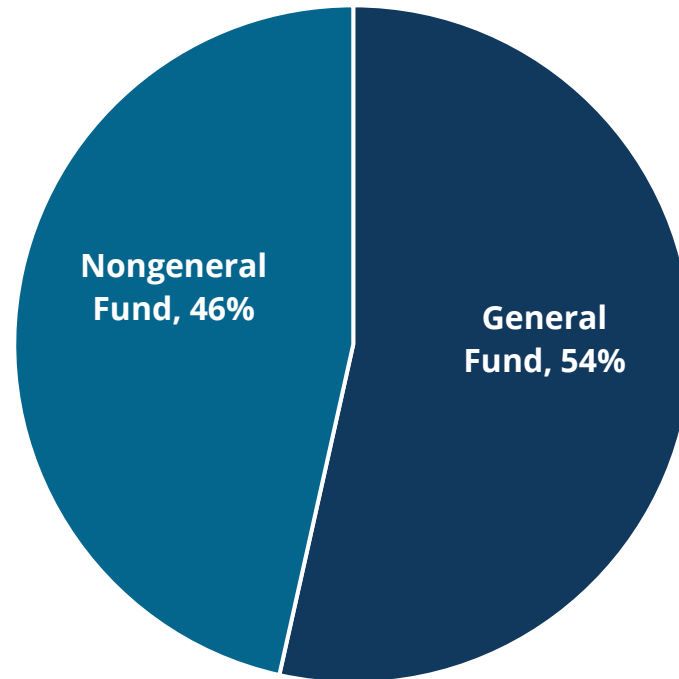
## Independent Agencies

- State Corporation Commission (SCC), Virginia Lottery, Commonwealth Savers (formerly Virginia 529), Virginia Worker's Compensation Commission
- Excludes the Virginia Retirement System (VRS, considered a part of compensation), the Opioid Abatement Authority (considered part of HHR), the Virginia Alcoholic Beverage Control Authority, and the Virginia Cannabis Control Authority (both considered part of Public Safety)

# GENERAL GOVERNMENT FUNDING ALLOCATION

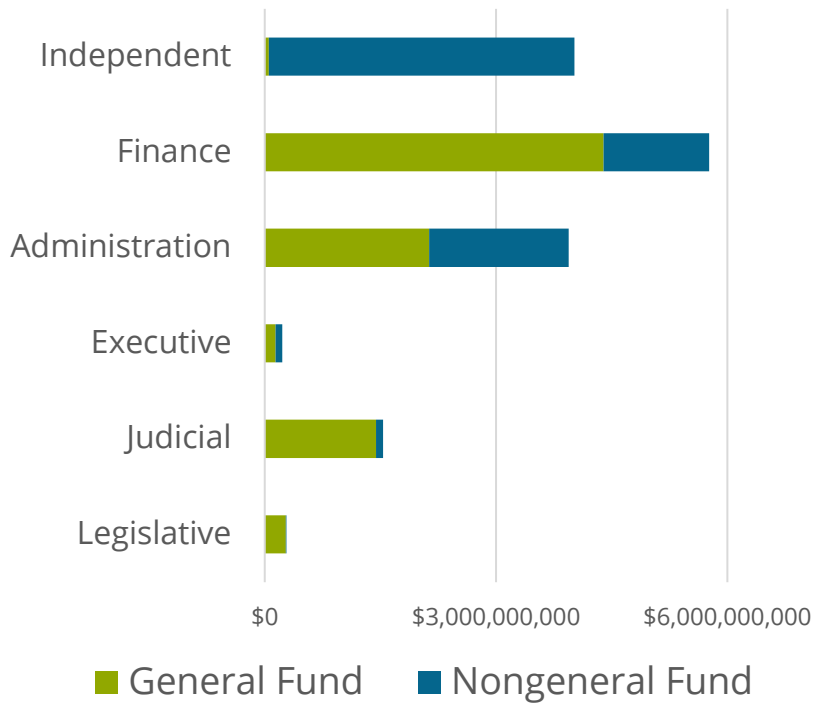
Most GF spending in the general government area typically falls within the Finance Secretariat for car tax relief and one-time actions (deposits to reserve funds, one-time tax rebates, etc.), as well as nearly \$1.0 billion for distribution to local constitutional offices (budgeted under the State Compensation Board)

General Government by Revenue Source  
As proposed in HB 30 Introduced  
for FY 2027 – FY 2028  
Total = **\$15.8 billion**



# FUNDING SPLIT BY BUDGET AREA

Allocation of Total Funding Proposed in HB 30 for General Government Areas (\$ in millions)



- Independent agencies are supported almost entirely by NGF revenues, to include Lottery proceeds and distributions, Commonwealth Savers enterprise funds, and fees collected to support administration of programs by the State Corporation Commission

# LONG-TERM POLICY/BUDGET ISSUES

- **IT SYSTEMS:** Updating or replacing outdated IT systems necessary for agencies to conduct their business
- **LOCAL GOVERNMENT SUPPORT:** Defining appropriate state support for constitutional officers (Compensation Board) and registrars and electoral boards (Department of Elections)
- **EFFICIENT TAX SYSTEM:** Ensuring the Tax Department is appropriately staffed, tax filing policies are fair and efficient, and taxpayer information is secure from cyber attacks