



Chapter 1

INTRODUCTION

This report presents the six-year capital outlay plan for the Commonwealth for 2000-2006. The genesis of the six-year capital planning process was a December 1990 report by the Secretary of Finance, entitled *An Assessment of Debt Management in Virginia*, which recommended substantial changes in the decision-making process for authorizing debt. The report resulted from language included in the 1990 Appropriation Act that directed the Secretary of Finance to review the use of debt in the Commonwealth and to recommend a plan to maintain the state's high credit rating.

Characteristics of exemplary capital budgeting

The following are principles and practices that states employ to foster effective capital outlay decision making.

- > **Long-range planning horizon.** Capital requirements must be examined over a four- to 10-year period to adequately identify and assess capital construction and renovation needs. The long-range planning process helps decision-makers to prioritize capital obligations and assists them in making informed choices about managing debt. It also facilitates the identification and evaluation of options and minimizes the unnecessary expenditure of public funds.
- > **Integration of capital budgeting with strategic planning.** Through the strategic planning process, agencies identify their mission and program objectives and assess the needs of their customers and the environment in which they are operating. These strategic plans should be the starting point for identifying capital requirements and determining the gap between current and future needs. During this process, alternatives should be assessed, including non-capital options.
- > **Limitation on debt financing.** There needs to be a measure of debt affordability that identifies the amount of tax-supported debt that may be prudently authorized consistent with financial goals and

capital needs. Rating agencies view control of tax-supported debt as a key factor affecting credit quality.

- > **Quality information including an inventory of assets and needs.** Policy makers must have up-to-date and comprehensive data and information systems to make effective decisions. Decision-makers need current and accurate documentation of assets and their condition. An inventory assists in estimating the cost to fully maintain all facilities. There also needs to be lifetime-to-date information on all active projects. Preferably, this is available from a single source.
- > **Good communications.** Good internal communication allows all levels of an organization to be familiar with the agency's mission and strategic goals. Dialogue and feedback between line and central agencies is important to quickly resolve questions or problems. A central agency can also serve as a clearinghouse for disseminating state-of-the-art techniques.
- > **Monitoring of performance.** Agencies must be held accountable for results through appropriate levels of review. Once initiated, there needs to be a systematic way to monitor a project's progress and evaluate performance. For example, performance measures can be used to assess completion targets and cost estimates. The evaluation of results allows lessons learned to be incorporated into the capital decision-making process.

Long-range capital planning in Virginia

Beginning with the 1992-94 biennium, state agencies and institutions of higher education with a physical plant have prepared capital outlay proposals covering a prospective period of six years. These six-year capital outlay plans identify the agency's capital needs over the next six years and rank the projects in priority order. Agencies justify the need for the requested projects with respect to their strategic plan, programs, and services.

This is the fifth such six-year capital outlay plan produced for the Commonwealth -- the first was published in 1992. These six-year capital outlay plans represent one component of the Commonwealth's efforts to integrate long-range planning into its fiscal decisions. The objective of this plan is to enable the reader to clearly focus on how the Commonwealth is investing in capital projects, why it is doing so, and what lies ahead.

This report builds on the framework of the earlier plans. It includes all capital projects contained in the Appropriation Act governing the 2000-2002 biennium. It also identifies higher priority projects being requested by state agencies and institutions of higher education for funding during the next two biennial budget periods. For purposes of this report, in some cases, individual capital outlay projects in the same agency which are similar in nature and purpose have been combined into a blanket authorization or umbrella project. This serves to simplify the tabulation of projects for purposes of presentation and readability.

By necessity, the number of requested projects included in this six-year plan has been limited to hold the total dollar value of all projects in each biennium to a reasonable level consistent with the Commonwealth's debt capacity. To illustrate, the 2000-2002 Appropriation Act relies heavily on pay-as-you-go financing for important capital projects. A sizeable \$730.7 million pay-as-you-go capital outlay package is contained in the 2000-2002 budget, including \$306.0 million in general fund capital outlay.

Organization of this six-year capital outlay plan

This capital outlay plan is composed of four chapters. This chapter highlights the six-year capital plan and its purpose. It also presents information about the Commonwealth's efforts to develop a comprehensive approach to capital planning and financing.

"Chapter 2, Capital Planning and Budgeting in the Commonwealth of Virginia," provides an overview of the long-range capital outlay planning process used in Virginia, including a definition of a capital project as used in the Commonwealth's capital outlay budgeting process. It also discusses the alternative methods of financing capital expenditures. These approaches include "pay-as-you-go" funding options in the operating and capital budget and "pay-as-you-use" options that employ debt financing. Finally, the chapter describes the Commonwealth's debt capacity model.

"Chapter 3, Continuing and Emerging Issues" examines the continuing and emerging infrastructure needs of the Commonwealth and explores the reasons for them. Factors such as the changing demographics of groups that receive state services, evolving environmental standards, and the aging of buildings are discussed. Along with these factors, this chapter investigates emerging needs, such as technological infrastructures to create connections between agencies' telephone networks and computer systems. It also describes and analyzes specific capital needs in the major functional areas of state government, such as higher education, corrections, and transportation.

"Chapter 4, Recommendations for 2000-2006" identifies high-priority capital projects for the six-year period beginning with those recommended for funding by the Governor for the 2000-02 biennium. Technical appendices that provide additional detail are available from the Department of Planning and Budget upon request.