EXECUTIVE SUMMARY

This report presents the six-year plan of high-priority capital outlay projects for the Commonwealth in the three biennia spanning 2000-2006. This is the fourth six-year plan produced -- the first was published in 1992 -- and represents one component of the Commonwealth's efforts to integrate long-range planning into its fiscal decisions.

The 2000-06 plan contained in this report is not intended to be a guarantee that individual capital outlay projects will be funded within any given biennium, since overall spending levels may change in the future as a result of economic conditions and other factors. In addition, the programmatic need for the project and agency priorities may change over time. Nonetheless, this report does attempt to prioritize pending capital outlay projects and to enable the Commonwealth to remain within its calculated debt capacity.

Funding options for capital expenditures

Government entities, including Virginia state government, generally have two options available for funding the requirements of conducting business: cash and debt. Routine operating expenses are generally paid from current revenues (cash) as expenditures occur. This financing option is often referred to as "pay-as-you-go."

Financing expenses over an extended period through debt is used for capital projects that involve long-term tangible assets, such as land and buildings. This financing option is often referred to as "pay-as-you-use," because the payment period extends over the useful life of the asset. Thus, the users of the asset are paying for it rather than just those paying taxes when it was acquired.

The Commonwealth uses both "pay-as-you-go" and "pay-as-you-use" financing techniques for capital expenses. Historically in Virginia, "pay-as-you-go" was the preferred financing method. However, economic conditions in the early 1990s encouraged the use of debt and other methods of paying for capital expenses to take advantage of lower costs in construction and long-term interest rates. Recently, efforts have been taken to limit the use of debt in order for the state to preserve the Commonwealth's debt capacity and to maintain its "triple-A" bond ratings.

Emerging and continuing issues

A number of factors influence the continuing and emerging infrastructure needs of the Commonwealth. One of the most significant factors is the increasing and changing demand for state services in institutions of higher education, correctional facilities, state parks, mental health hospitals, and the highway system. Changing demographics -- including an increasing census, the aging of the general population, and population movement -- affect the demand for services. In addition, policy decisions often affect the way certain programs or services are provided, resulting in actions to expand or modify existing facilities, establish new facilities, or consolidate or close underutilized facilities.

The Commonwealth's aging infrastructure also creates a continuing need for capital expenditures. The state owns over 1,085 tracts of land, ranging in size from under an acre to over 58,818 acres. Over 8,556 buildings are located on these properties, with gross square footage in excess of 81.8 million square feet. The average useful life of a typical building, without substantial renovations, is 30 to 40 years. Over a third of the Commonwealth's buildings -- 2,959 -- are in excess of 40 years old.

Moreover, a growing number of state and federal mandates to correct threats to life and health require improvements to many state facilities. Examples of capital projects required to address legal mandates are the remediation of leaking underground storage tanks, lead abatement, compliance with air pollution standards, and the phasing out of certain gases used in refrigeration. The Americans with Disabilities Act of 1990, which requires that "programs and services be accessible in a dignified manner" to handicapped people, also requires building alterations or construction of new facilities. The need to respond to these various legal mandates creates a demand for capital spending.

Finally, it should be noted that technological advances are having an impact on the Commonwealth’s capital program. Technology infrastructure creates the connections between agencies' telephone networks and computer systems. It transmits computer data over telephone lines thus moving information quickly to the people who need it. Teleconferences save time and travel costs by replacing face-to-face meetings. For example, electronic classrooms use telephones, fax machines, the public broadcasting microwave network, and communications satellites to reach high school and college students across Virginia and throughout the nation. A planned technology infrastructure can help state government make the best use of its considerable investment in personal computers, mini- and mainframe computers, telecommunications equipment and services, and video transmission capacity.

Recommendations for 2000-2006

2000-2002 biennium. The 2000 Appropriation Act provides funding for a total of 233 capital outlay projects with an associated cost of $964.1 million, all funds, in the 2000-2002 biennium. Of this total, 210 projects, costing $730.7 million, are recommended for “pay-as-you-go” financing. Twenty-three other projects, totaling $233.3 million are recommended for funding through bonds. (Six recommended capital projects are funded with both “pay-as-you-go”financing and bonds.)

Appendix A presents the detailed capital project recommendations for the 2000-2002 biennium.

2002-2004 biennium. State agency capital outlay budget requests for the 2002-04 biennium are far higher than is possible to fund from either a "pay-as-you-go" or debt capacity standpoint. For this two-year period, the six-year capital outlay plan identifies 152 high-priority capital outlay projects at a cost of $1,005.1 million from all funding sources. One-third of these projects are for institutions of higher education ($422.3 million). Other high-priority projects address themes discussed throughout this report, as the Commonwealth addresses demographic trends, service delivery issues, and the need to maintain an aging infrastructure.

A complete list of high-priority capital projects recommended in this plan for the 2002-04 biennium is presented in Appendix B.

2004-2006 biennium. A total of 188 high-priority projects, totaling $1,225.8 million, all funds, are identified for the 2004-2006 biennium. As in previous biennia, the majority of the high-priority capital outlay projects are at institutions of higher education ($709.6 million). Appendix C lists all high-priority projects for the 2004-2006 biennium.

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