Six-year Capital Budget Request

2006-2012 Budget Development

Virginia Department of
Planning and Budget
March 2005

Instructions for Developing the Six-Year Capital Budget Request for 2006-2012

Table of Contents

I. Introduction

This document provides guidance for submitting the Six-Year Capital Outlay Plan for 2006-2012. It contains instructions for preparing requests for the following:

- 2006-2012 capital projects,
- 2006-2012 maintenance reserve subprojects,
- Supplements to capital projects previously funded,
- Equipment for projects previously funded, and
- Proposed capital lease agreements.

The process for developing your six-year capital proposals will be similar to those in previous years. The capital planning process begins with agencies submitting to DPB summary information (DPB Form H-1) on **all projects** that are being requested for the six-year period included in their capital plan. The DPB Form H-1 includes a narrative section that should focus on the programmatic justification and need for the project. Based on this submission and the current Six Year Capital Outlay Plan, DPB will authorize agencies to prepare more detailed narrative and technical information. The detailed submission consists of the combined Project Cost and Scope Profiles (Form C-1_ S-1), the Project Request Justification (DPB Form CNJ), and the Project Technology Profile (DPB Form T-1). Once agencies submit their strategic plans in June, DPB will authorize a second set of projects for detailed submission.

An interagency team – consisting of your staff, staff from central review and oversight agencies, and legislative money committee staff – may be established for major projects requested for the 2006-2008 biennium. The team will work together from budget development throughout the life of the project to ensure swift project execution and quick resolution of problems.

The following items summarize the capital submission requirements.

- ✓ **The plans should place an emphasis on long-term planning for capital outlay expenditures**. Agency requests should be based on their strategic plan, its master site plan, and its Six-Year Capital Outlay Plan.

- ✓ **DPB Form C-1 -S-1**. This is again in an Excel document required for all projects authorized for detailed submission. **Incomplete forms will be returned**. Incomplete or poorly-documented submissions will not be recommended for funding.

- ✓ **Capital outlay leases.** The DPB Form L-1 is used for new leases sought over the six years and for existing capital leases that will terminate during these biennia and which the agency anticipates the need for renewal.

- ✓ **Submission of Maintenance Reserve Plans**. Your annual maintenance reserve plan is due no later than July 15, 2005.

- ✓ **Electronic format required.** No hard copies of the project request justifications are required unless you have additional documentation to support the requests. Electronic and regular mail guidelines and addresses are included in Section IV.

Key dates for the 2006-2012 capital budget submissions

Date	*Action*
March 16, 2005	The Department of Planning and Budget (DPB) issues instructions for the preparation of six-year capital proposals.
May 13, 2005	Agencies submit summaries of all projects in their six-year plan to DPB (DPB Forms H-1) along with their 2006-2008 maintenance reserve requests (DPB Forms MR-1), maintenance reserve projects planned for future biennia (DPB Forms MR-2), and a summary of proposed capital outlay leases (DPB Form L-1).
June 3, 2005	Based on the May 13, 2005 submissions and the Six Year Capital Outlay Plan (2004 - 2010) released November 19, 2003, DPB notifies agencies of 2006-2008 capital projects for which project request justifications (project cost and scope profiles, project request justification, and technology profile) will be needed.
June 17, 2005	DPB validates new subprojects for inclusion in agency FY 2006 Maintenance Reserve Plans and notifies agencies.
July 8, 2005	Based on their May 13 submissions and their June 16 strategic plan submissions, DPB notifies agencies of additional capital projects for which project request justifications (project scope profile, project request justification, and project cost profile) will be needed.
July 15, 2005	Agencies submit project request justifications (project cost and scope profiles, project request justification, and project technology) for all projects authorized on June 3, 2005.
July 15, 2005	Agencies submit to DPB their updated 2006 Maintenance Reserve Plan (DPB Form MR-3) including those subprojects validated for the 2006-2008 biennium.
Jul/Aug 2005	Project team meetings are held on selected projects submitted on July 15, 2005.
Aug 12, 2005	Agencies submit to DPB updated project timelines and draw schedules for capital projects included in the Governor's Capital Implementation Plan.
August 19, 2005	Agencies submit project request justifications (project scope profile, project request justification, and project cost profile) for all projects authorized in June.
Sept 1, 2005	Secretary of Finance issues status and revised draw schedules for projects in the Capital Implementation Plan.

Sept 15, 2005	Agencies submit financial feasibility studies for revenue bond projects (with appropriate copies) to the Department of the Treasury.
Nov 1, 2005	Governor submits six-year Capital Improvement Plan.
Dec 20, 2005	Governor submits 2006-2008 biennial budget to the General Assembly.

II. Capital Budget Submission

The capital budget submission sets forth your agency's capital project needs for the next six years. The request ranks the projects in priority order and justifies the need for them in terms of your agency's goals, objectives, programs, and services. Different components of the request will be due at different times. By May 13, 2005, you will be required to prepare summary information for **all projects** requested for each of the three biennia included in your six-year plan including supplements to previously funded projects and equipment for projects previously funded. You will also present detailed information on your maintenance reserve funding needs for the 2006-2008 biennium.

By June 3, 2005, DPB will notify you of the projects where more detailed information is needed and when this information should be submitted. This more detailed narrative and technical information is to be submitted by July 15, 2005. In addition, agencies must also submit an updated 2006 Maintenance Reserve Plan (DPB Form MR-3) by this date. A second set of 2006-2008 projects will be authorized for detailed submission on July 8 with the detailed submission due back no later than August 19. Two submission dates allows agency workload and central agency review to be spread out. It is important to understand that any authorization on the part of DPB does not constitute a commitment on the part of the Governor to fund these projects in the 2006-2008 budget.

Appendix A provides guidance on whether your property, plant, or equipment needs should be included in the operating or capital budget. It also addresses the various types of multi-task projects, including maintenance reserve, discussed in the instructions below.

Submission instructions are included in Section IV.

2006-2012 capital outlay plan – Due May 13, 2005

The components of your Six-Year Capital Outlay Plan that are due on May 13 are:

- ✓ Summary and financial information (Form H-1) for all projects included in your plan,
- ✓ Summary of proposed capital outlay leases (Form L-1),
- ✓ Detailed 2006-2008 maintenance reserve subproject requests (Form MR-1), and
- ✓ Summary of future maintenance reserve subprojects planned for future biennia (MR-2).

Summary and financial information (Form H-1) – Due May 13, 2005

Except for maintenance reserve projects, which have their own set of forms and instructions (see below), you must prepare a "DPB Form H-1, Summary and Financial Information" for each project included in your 2006-2012 capital outlay plan, regardless of the biennium for which the project is requested. However, as noted in the form instructions, certain portions of the DPB Form H-1 are completed only for projects being requested for the first biennium of the six-year plan. If you are requesting an umbrella project, you will also need to prepare a separate DPB Form H-1 for **each** of the subprojects within that umbrella project.

The purpose of the DPB Form H-1 is to summarize the size and scope of the project and provide estimates on the project's cost. It also identifies operating costs or savings that will be incurred once the project comes on-line. **You will need to provide a sufficient description and justification for the project so that the reader knows what is being requested and why it is needed.**

Be sure to include in your requests funding to cover unanticipated cost increases for projects previously funded and requests for equipment for projects coming on-line in the 2006-2012 timeframe that was not funded in the project budget.

See DPB's website for "DPB Form H-1, Summary and Financial Information," and the instructions for completing the form.

Note: If funding is being requested in the 2006-2008 or 2008-2010 biennium for a project that was not included in your agency's 2004-2010 six-year capital plan, you must explain in Section J of the DPB Form H-1 why the project was not anticipated and included in that plan.

Summary of proposed capital outlay leases (Form L-1) – Due May 13, 2005

The DPB Form L-1 is used to summarize data for projects being requested for the next six years that involve leasing arrangements that may qualify as "capital outlay leases."

For a definition of a capital outlay lease and further details on the Form L-1, see Section IV.

Maintenance reserve request submission (Forms MR-1, MR-2) – Due May 13, 2005

Agencies and institutions are reminded of the following provisions in § 4-4.01 of Chapter 4, the 2004 Appropriation Act:

- ✓ First priority when requesting capital outlay appropriations shall be maintenance reserve,
- ✓ First priority when expending capital funds shall be given to roof repairs.

All agencies with a physical plant are to submit maintenance reserve requests to identify any new requirements needed to maintain or extend the useful life of their facilities. As you do with stand-alone capital projects, you should identify your maintenance reserve requirements over the six-year planning period. Your maintenance reserve request for the 2006-2008 biennium should be submitted using Form MR-1 and reflect only those subprojects required for that biennium and not your agency's total six-year need. Projects for the two subsequent biennia should be submitted using Form MR-2. **Do not include similar work in both your maintenance reserve request and a stand-alone capital project. Also, do not submit a request for a previously validated project that has not been funded.**

Maintenance reserve subprojects are **not** intended to enhance, upgrade, or otherwise improve plant, property, or equipment unless such work is incidental to the main purpose of the project (less than 25 percent of the overall cost). The maintenance reserve plan should cover facilities funded from nongeneral funds as well as those supported with general fund dollars.

(See Appendix A of these instructions for further definition of maintenance reserve subprojects.)

Your 2006-2012 maintenance reserve request will include the following items:

- ✓ **"DPB Form MR-1, Maintenance Reserve Subproject Request."** This form describes the subproject and summarizes information about the need, cost, and eligibility for maintenance reserve funding. The DPB Form MR-1 is prepared only for maintenance reserve subprojects being requested for the 2006-2008 biennium.

- ✓ **"DPB Form MR-2, Summary of Future Maintenance Reserve Subprojects."** This form lists and prioritizes all the individual subprojects planned in the final four years of your six-year plan. A separate form is completed for each of the last two biennia. **Institutions of higher education with authority to manage their maintenance reserve programs at the local level need only include the new projects on the DPB Form MR-2, but the MR-2 should be completed for all <u>three</u> biennia.**

See DPB's website for the detailed instructions for completing these forms.

DPB will review each maintenance reserve subproject request and validate those that meet the criteria. DPB will return to you by June 17, 2005, copies of the DPB Form MR-1 indicating whether individual subprojects have been approved or disapproved. You must then incorporate the newly validated subprojects into your maintenance reserve plan for the 2006-2008 biennium using the DPB Form MR-3 no later than July 15, 2005. This form is submitted annually to show the current status of the agency maintenance reserve plan by subproject. DPB will base its recommendations for 2006-2008 maintenance reserve funding on this comprehensive update of your maintenance reserve plan. Detailed instructions on how to prepare your 2006 maintenance reserve plan will be issued later this month.

Detailed 2006-2008 capital project request submission – projects authorized on June 3 due on July 15 and projects authorized on July 8 due on August 19

You must prepare a detailed capital project request for each project requested for the 2006-2008 biennium for which DPB approves the submission of more detailed information. The primary purpose of the detailed capital project request is to provide a carefully reasoned explanation of the need for the project, describe what the project entails, demonstrate how it relates to program goals and objectives, and identify the projected costs. The detailed capital project request consists of the following two elements:

- ✓ **Project request justification (DPB Form CNJ).** The project request justification presents the specific detailed information explaining the programmatic need for the project and describing why it is necessary to the delivery of your agency's services and activities. It also relates the project to your agency's strategic plan.

- ✓ **Project definition worksheets (DPB Forms C-1_S-1, T-1).** These documents are used to identify design parameters and any special requirements associated with the project. Information from the worksheets will be used to establish a "design-to" construction budget, a "design-to" gross area, and a project design budget. Along with the project definition worksheets, agencies, under certain circumstances, will also be required to submit Environmental Impact Reports to the Department of Environmental Quality (DEQ).

Note about umbrella projects:

If you are combining more than one facility or improvement into an umbrella project, it may not be necessary to provide a project request justification and a series of project definition worksheets for each separate subproject within the umbrella. Depending on the nature of the umbrella project, one or more of the components can be consolidated. Consult with your DPB analyst on the requirements for submitting any umbrella projects that you may have.

Project request justification (DPB Form CNJ)

The CNJ form was developed as a means for the agencies to describe - in a reasonable amount of detail - how they developed their numbers. Specifically, the project request justification details the project's scope and justifies its need. Unfortunately, during the last several budget cycles, agencies have put in a "less than complete" effort in providing this information. In order for projects to receive full consideration for funding, all information requested in the form must be thoroughly addressed.

The need must be demonstrated from several perspectives, including the agency's programs and activities and the condition of its existing facilities in order to show why it is important to fund the request. The narrative should be thorough and complete. The quality of your submission is extremely important. Remember who your audience is for this submission and **do not** use technical engineering terms and jargon. Decision-makers may only have your narrative as the basis for considering the merits of your request.

Project cost and scope profiles (Form C-1_S-1)

The intent of the S-1 form is to allow agencies to determine the project's budget and define the project scope. In addition to the narrative sections, one especially useful section of the S-1 is the "space plan" which asks the users to define the various types of spaces needed, the number of users, and any special equipment requirements.

The form was designed for agencies to complete without having to hire a design consultant. If an agency is understaffed or is proposing a particularly complex project, it is not precluded from using an outside firm to assist them in completing this form, but the requesting user at most agencies should be able to easily complete the S-1 form with some assistance from their in-house facility management or capital outlay staff. If you need further assistance, feel free to contact your reviewer in the Department of General Services' Bureau of Capital Outlay Management (BCOM), who may be able to assist you with these worksheets.

The S-1 was also designed to serve as the baseline scope definition document that the agency can provide to their architecture and engineering (A/E) as part of the A/E Contract for design phase services. The S-1 gives the agency's design consultant a blueprint or roadmap to further develop the project scope during the schematic design. Rather than a full-blown "programming" exercise for the agency and their A/E, a well-documented S-1 form allows for a more concise and efficient "program refinement" during schematic design. In completing the S-1 form, the agency has had a more involved role in defining the first cut at the project scope and therefore has a greater commitment (or "buy in") to it. Just by going through the scope definition process, the agency should be able to communicate its needs to their design consultants.

These forms have been combined into an Excel document. You need to describe all unique aspects, conditions, and proposed design features that may influence the project's cost. Failure to do so may result in understating the amount of funds needed to complete the project.

Agencies should submit **all** cost-related backup material supporting project cost and design information. If this backup information cannot be submitted electronically, it should be mailed to the Capital Submissions Clerk at DPB (see Section IV of these instructions). For example, if a schematic or preliminary estimate, a life cycle cost analysis, or a value engineering study has been prepared for the project, then this data should be submitted. Likewise, if a listing of comparable projects and associated costs has been developed, this material should be provided. Also, any supporting design data such as feasibility studies, schematic design documents, or preliminary design documents completed but not already submitted to BCOM should be included. This backup material will help BCOM evaluate the reasonableness of the proposed project budget and the appropriateness of the proposed technical solution.

Project technology profile (DPB Form T-1).

The Project Technology Profile (T-1) is used to describe the general scope of work and cost estimates for capital projects with a significant technology component. These projects should have been included in your agency's IT Strategic Plan submitted to the Virginia Information Technologies Agency (VITA).

See DPB's website for copies of the justification and profile sheets and instructions for completing them.

Environmental impact reports

Section 10.1-1188 of the Code of Virginia requires state agencies to prepare and submit an environmental impact report (EIR) to the Department of Environmental Quality (DEQ) for each major state project. "Major state project" means the acquisition of an interest in land for construction of any state facility (including gifts, leases, and purchases), the construction of any state facility, or expansion of an existing facility costing over $100,000. In accordance with §10.1-1190 of the Code, the State Comptroller shall not authorize payments of funds for major state projects unless the request is accompanied by written approval of the Governor, after his consideration of the comments by DEQ on the environmental impact of the facility. For more information pertaining to the requirements of the EIR law, contact DEQ's Office of Environmental Impact Review at (804) 698-4325.

Review and approval process

DPB will review all capital project requests and identify, with the assistance of the Cabinet Secretaries, those projects that should be considered for funding in the 2006-2008 biennium. BCOM will review the project profiles to determine an appropriate “design-to” construction budget, “design-to” gross area, and design budget for the project.

Major capital projects requested for the 2006-2008 biennium may be reviewed by project teams consisting of staff from BCOM, DPB, the State Council of Higher Education for Virginia (SCHEV), the Department of Mines, Minerals, and Energy (DMME), DEQ, and/or the legislative money committees. These project teams will meet with your agency to discuss the project submission. The objective of the project team meetings is to reach agreement on “design to” targets for the project. The “design to” targets will include agreements on:

- Space requirements,
- Characteristics of construction,
- Construction budget, and
- Length of time to design and complete the construction.

If the project is approved for funding, this information will be communicated to an architectural and engineering firm. These targets must be adhered to as the schematic and preliminary designs for the project are developed.

III. Capital Outlay Leases

Definition

The leasing of property for use by state agencies may be treated as an operating expense or a capital expense, depending on the nature and term of the lease. A lease is generally considered an "operating lease," and accounted for as an operating expense if the lease is for a short period of time (e.g., one year) **and** there is no transfer of ownership involving any portion of the leased property to the lessee (all property interests remain with the lessor).

On the other hand, if a lease is for a longer duration covering a substantial portion of the useful life of the leased property, or if it allows for the transfer of ownership of some portion of the property to the Commonwealth (lessee) at the expiration of the lease (e.g., option to buy, lease-acquisition, etc.), the lease may be classified as a "capital lease" and accounted for as a capital outlay expense. A capital lease does not necessarily mean that an agency takes title of the property. Unlike an operating lease, a capital lease is considered a long-term liability of the Commonwealth and is included in the calculation of the Commonwealth's debt capacity.

For purposes of the state's budgeting process, certain lease agreements are defined as "capital outlay leases" which must be requested and budgeted as capital outlay projects. A "capital outlay lease" includes:

- ✓ Any lease agreement involving the acquisition or improvement of real property, as that term is defined in the Commonwealth Accounting Policy and Procedures (CAPP) Manual (see Appendix B),
- ✓ The purchase of equipment by means of a capital lease agreement if the equipment would meet the capital project definitions if it were purchased outright or,
- ✓ Any acquisition or improvement of real property financed by a lease agreement in which the project cost is equal to or exceeds $5.0 million.

For purposes of the latter, "project cost" is equal to (1) the annual amount of the lease payments multiplied by the number of years of the lease, including the automatic renewal periods, up to a maximum of 20 years or (2) the expected total of all annual lease payments over the term of the lease if the lease amount varies from year to year.

Below are some examples to help clarify whether a lease would qualify as a capital outlay lease.

Example 1

Agency XYZ proposes to lease a new building from a real estate developer for $250,000 per year for 10 years with an option to renew thereafter at the lessee's discretion for five-year intervals up to a maximum of 25 years (i.e., there are three automatic renewal periods). This lease would qualify as a capital outlay lease based on the following project costs:

Annual lease payment	$250,000

Term of lease & renewal period (capped at 20 years)	x 20 years
Total "Project Cost"	$5,000,000

Example 2

Same as #1 above, except that the lessee can renew for only an additional five years (i.e., the total term of the lease with the renewal period is 15 years. This lease **would not** qualify as a capital outlay lease based on the following project costs, assuming that it does not otherwise meet the CAPP definition of a capital lease (See Appendix B under Department of Accounts).

Annual lease payment	$250,000
Term of lease & renewal period	x 15 years
Total "Project Cost"	$3,750,000

Example 3

Same as #1 above, except that the annual lease payment is $200,000. This lease **would not** qualify as a capital outlay lease based on the following project costs, assuming that it does not otherwise meet the CAPP definition of a capital lease (see Appendix B under Department of Accounts).

Annual lease payment	$200,000
Term of lease & renewal period (capped at 20 years)	x 20 years
Total "Project Cost"	$4,000,000

Example 4

Same as #1 above, except that the annual lease payments are $230,000 per year for the first 10 years, $270,000 per year for the next five years, and $300,000 per year thereafter. The lease would qualify as a capital outlay lease based on the following project costs:

Lease payments first 10 years ($230,000 x 10)	$2,300,000
Lease payments next 5 years ($270,000 x 5)	$1,350,000
Lease payments through year 20 ($300,000 x 5)	$1,500,000
Total "Project Cost"	$5,150,000

Review and approval process

Unless otherwise specifically provided by law, all real property leases, whether "operating" or "capital," are subject to review by the Department of General Services (DGS) pursuant to §2.2-1149, Code of Virginia. Section 4-5.07, of Chapter 4, of the 2004 Appropriation Act, requires any agency acquiring real property by means of a lease to certify to the DGS Director that: (1) funds are available within the agency's appropriation to cover the cost of the lease, and (2) that the volume of leased space conforms with the space planning procedures for leased facilities developed by DGS. You should contact the Division of Real Estate Services at DGS for instructions to comply with these requirements.

In addition, "capital leases" are subject to a separate level of review and approval based on the guidelines promulgated by the Secretary of Finance (see Section 4-3.03, of Chapter 4, of the 2004 Appropriation Act). For purposes of this requirement, any agency or institution of higher education proposing to acquire property through a "capital outlay lease," as defined above, must submit a capital outlay request for the property just as if the agency were proposing to purchase the property outright. **Agencies cannot enter into capital outlay leases during budget execution without prior approval to initiate a capital project.** (See Section 4-4.00, of Chapter 4, of the 2004 Appropriation Act, for capital project requirements.)

Capital outlay leases for real property are to be authorized by language in the capital outlay section (Part 2) of the Appropriation Act. This authorization must be obtained prior to entering into any such agreements. Appropriations to support all lease payments will be included in the operating section of the Appropriation Act (Part I). Appropriations to support lease payments for all general fund capital leases for real property financed by the issuance of securities (i.e., tax supported debt) will be included in the Treasury Board's appropriation in order to ensure consistent management and control. Appendix B summarizes the role of central agencies in the review of leases.

Proposed capital outlay leases

If you are proposing or expect to have use of property during the next six years through any arrangement that may qualify as a capital outlay lease, you must report this transaction to DPB on the DPB Form L-1. You must also include any such requests in your capital outlay budget requests (H-1 Form). On the DPB Form H-1, you should identify the project as a capital outlay lease.

The DPB Form L-1 captures certain financial and narrative information that will enable the Secretary of Finance to ascertain whether the proposal is indeed a "capital outlay lease" that is subject to these capital budget instructions, and the extent to which the lease will impact the Commonwealth's debt capacity calculations. It will also assist decision makers in determining whether leasing is the most cost-effective method for meeting the agency's capital needs.

You need to list each lease you anticipate entering into during the next six years as a separate project on the DPB Form L-1. **<u>This reporting requirement applies regardless of the source of financing</u>** (i.e., general fund, special fund, federal trust fund, etc.). Moreover, institutions of higher education must report all proposed leases meeting these criteria regardless of program area (educational and general programs, auxiliary enterprises, or sponsored programs).

(See DPB's website for a copy of "DPB Form L-1, Summary of Proposed Capital Outlay Leases" and instructions for completing this form.)

IV. Packaging Your Capital Budget Submission

Submission contents

May 13, 2005 submission

Your 2006-2012 Capital Outlay Plan submission should contain the following material, packaged in the sequence listed below.

1. A "DPB Form H-1, Summary and Financial Information." <u>All projects should be submitted in one Microsoft Access file.</u>

2. Maintenance reserve request

   - ✓ A "DPB Form MR-1, Maintenance Reserve Subproject Request." **(Only for subprojects being requested for the 2006-2008 biennium). All subprojects should be submitted in one Microsoft Access file.**

   - ✓ A DPB Form MR-2 for each of the two future biennia (2008-10 and 2010-12).

3. A "DPB Form L-1, Summary of Proposed Capital Outlay Leases" if applicable.

July 15, 2005, and August 19, 2005, detailed submissions

The detailed capital budget submission for each authorized 2006-2008 project must contain the following material:

- ✓ Project Request Justification (Form CNJ).
- ✓ Project Cost and Scope Profiles (Form C-1_S-1). If the cost totals for each category do not match the summary figures on the H-1 form, an explanation must be provided on the Form CNJ.
- ✓ Any additional back-up material to support the scope and cost profiles.
- ✓ Project Technology Profile (Form T-1), if project has a significant technology component.
- ✓ Environmental Impact Report (submitted directly to DEQ).

Naming files

The DPB Form H-1 and DPB Form MR-1 are Microsoft Access documents. Do not attempt to rename these files.

The Form C-1_ S-1 is an Excel document and the remaining documents are Microsoft Word documents. The suggested format for naming the excel documents is **agency code -priority-biennium-C1S1-brief description** (See the instructions in the excel document). The format for the Word files is **agency code, a 2-3 word description of project, and type of form**. For example, 122 Bradford Renovation Form L-1.doc

Submission packages

All agencies

- ✓ Email the forms and schedules:
  capitalbudget@dpb.virginia.gov

- ✓ **PLEASE MAKE SURE THAT YOU INCLUDE YOUR AGENCY NAME AND AGENCY CODE IN THE SUBJECT LINE OF THE E-MAIL MESSAGE**

- ✓ Any supporting documentation not in electronic format should be sent to:

Capital Submission Clerk
Department of Planning and Budget
1101 East Broad Street
Room 5040
Richmond, Virginia 23219-1922

- ✓ State agencies must send DPB six copies of any supporting documentation. Institutions of higher education must send seven copies.

V. Capital Budget Forms and Instructions

The forms and the instructions for completing the forms are available through the Internet on DPB's website at "www.dpb.virginia.gov". The forms and instructions will be under the "Documents and Forms" page and then under "Capital Budget."

- ✓ DPB Form H-1 — Capital Project Request, Summary and Financial Information
- ✓ DPB Form CNJ — Project Request Justification
- ✓ DPB Form C-1_S-1 — Project Cost and Scope Profiles
- ✓ DPB Form T-1 — Project Technology Profile
- ✓ DPB Form L-1 — Summary of Proposed Capital Outlay Leases
- ✓ DPB Form MR-1 — Maintenance Reserve Subproject Request
- ✓ DPB Form MR-2 — Summary of Future Maintenance Reserve Subprojects

Appendix A
Definitions and Criteria

This appendix will help you determine how to categorize and budget for your capital outlay projects. These definitions and criteria apply to any capital outlay request, whether the state owns or leases the facility. Depending on its cost, size, and scope, a project may be funded in your agency's operating or capital budget. Many factors affect how a capital outlay project is funded and administered.

Capital projects include, but are not limited to, the following:

- ✓ New construction projects with a total project cost exceeding $250,000,
- ✓ Improvements, renovations, repairs, replacement, maintenance, or combination projects for a single building with a total project cost exceeding $500,000,
- ✓ Umbrella projects, and,
- ✓ Blanket projects with a total project cost exceeding $500,000.

Capital outlay projects fall into one of four categories -- acquisition, new construction, improvements, or equipment. Projects funded in the capital budget may stand-alone or may be grouped together. A project with multiple subprojects may fall into one of three types -- maintenance reserve, umbrella projects, or blanket projects. The nature of the projects and the source of funds will determine the project type.

Operating or Capital Budget?

You have some discretion in determining whether expenses related to property, plant, and equipment may be included in the operating or capital budget. The following section on Project Categories will provide general guidelines to help you make a determination as to whether a project should be included in your capital budget.

The routine operating and maintenance costs associated with property, plant, and equipment, regardless of the expense or method of financing, should always be included in the operating budget. These expenses include personal service costs, utility bills, supplies, and materials.

Project Categories

All projects requested for funding in the capital budget must fit in one of four categories -- acquisition, new construction, improvements, or equipment. The following definitions and criteria will help you select the proper category for your capital project requests. If two or more of the categories seem to apply to a project, such as a new construction project that also involves improvements, you must select only one category and use it in the project title and all related documents and references. In these situations, it is preferable to use the category that best describes the majority of the work being done.

Consult with your DPB analyst if you: 1) identify a project that does not meet any of the definitions or criteria; 2) propose a series of identical projects (such as towers, ramps, or sheds) that meet one or more of the criteria other than dollar thresholds; or 3) are not sure if a project should be considered an operating budget item or a capital budget item, such as equipment. Your analyst will advise you on the appropriate means of requesting the project (for example, operating budget, maintenance reserve, capital budget, or umbrella project).

Acquisition

Definition. Acquisition of any interest in land, including improvements of any kind located on the acquired land, except certain utility easements.

Criteria. All acquisitions of real property are subject to the capital project proposal process. This includes capital leases as defined earlier in the instructions. Donations of real property are addressed in the Department of General Services' Directive No. One, Real Property Management.

New Construction

Definition. A new construction project is a single undertaking involving construction of one or more facilities. Included in the project are: all work necessary to accomplish a specific purpose and produce a complete and usable new structure; the associated architectural and other technical services; the equipment installed and made part of the facility; and site development and improvements. New construction includes:

- Construction of or site work for a new plant, including the erection, installation, or assembly of a new building, structure, or utility system.
- Any addition, expansion, or extension to a structure that adds to its overall exterior dimensions.
- Complete replacement of a facility that, because of age, hazardous conditions, obsolescence, structural and building safety conditions or other causes, is beyond the point where it may be economically repaired or renovated and can no longer be used for its designated purpose.

Criteria. If a new construction project meets one or more of the following criteria, it is subject to the capital project proposal process:

- It creates additional building space of 5,000 square feet or greater (this does not apply to site development or building systems projects);
- It has a total project cost of $250,000 or greater; or
- It is acquired through a lease with options to purchase or any other alternative financing approach.

Improvements

Definition. An improvement is defined as all work necessary to produce a complete and usable change to an existing facility or structure, including the associated architectural and other technical services, the fixed equipment installed and made part of the facility or structure, and site development. Improvements include:

- Alteration of interior space arrangement and other physical characteristics, such as utilities, so that the structure may be more effectively used for its present designated functional purpose.

- Conversion of interior arrangement and other physical characteristics, such as utilities and fixed equipment installed on and made a part of the facility or structure, so that an existing structure may be effectively utilized for a new functional purpose.
- Renovation of most or all of a facility or structure or an existing mechanical system to comply with current building code requirements or to modernize it so that it may be more effectively used for its designated functional purpose.
- Restoration of a facility or structure, to the maximum extent possible, to its former or original state (historic property).
- Relocation from one site to another of a facility or structure either by moving it intact or by disassembling it and subsequently reassembling it.
- Major repair to restore a facility, mechanical system, or utility system to a condition that allows it to continue to be appropriately used, including the reprocessing or replacement of parts or materials that have deteriorated by action of the elements or "wear and tear" in use.

Criteria. If an improvement to an existing facility or structure has a cost of $500,000 or greater, it is subject to the capital project proposal process.

Equipment

Definition. Equipment is a tangible resource of a permanent or long-term nature used in an operation or activity.

Criteria. All equipment needs associated with projects defined as new construction or improvements must be included in the capital budget for these projects. If the equipment is to be financed by revenue bonds, it must be requested in the capital budget.

No precise criteria exist for the funding of equipment purchases as a stand-alone capital project. Consult with your DPB analyst to determine whether an equipment purchase not associated with an improvement or construction project should be requested in the capital or operating budget.

Capital Projects Funded in the Operating Budget

If the cost of a project falls below the dollar threshold for the category definitions, it may be funded in your agency's operating budget. However, you generally must complete projects funded in your agency's operating budget within the fiscal year in which the funds have been appropriated. Unlike capital budget appropriations, operating budget appropriations may revert at the end of a fiscal year.

Projects included in the operating budget must still meet the requirements of:

- The Uniform Statewide Building Code;
- The Commonwealth's Handicapped Accessibility Standards contained in Chapter VII of the Construction and Professional Services Manual;
- The DEQ requirements for environmental impact reports for projects costing over $100,000; and
- Your agency's approved Master Site Plan.

Further, §2.2-2402 of the Code of Virginia stipulates that you may not begin construction or erection of a building or remodeling, removal, or addition to the exterior of an existing building unless the Art and Architectural Review Board has approved the design and proposed location.

Multi-Task Capital Projects

A capital outlay project can consist of a stand-alone project or a group of projects combined together because they involve a series of identical or similar tasks. The most common multiple task project is “maintenance reserve” which groups a number of repair and replacement projects. Another type of multiple task project is an "umbrella project.” Umbrella projects group together a series of similar subprojects such as life safety improvements in multiple buildings at a facility. Any of the five project categories can have umbrella projects. The final type of multiple task project is the "blanket authorization project." Blanket projects include only activities that are financed by nongeneral funds.

The following descriptions of multiple task projects will help you determine if you have projects that should be grouped together in some fashion.

Maintenance Reserve

A maintenance reserve project is a major repair or replacement to plant, property, or equipment that is intended to extend its useful life. Each subproject usually costs between $25,000 and $500,000. However, a subproject costing under $25,000 or over $500,000 that meets the criteria may also qualify as a maintenance reserve subproject with the permission of DPB. Consult your DPB analyst if you have any questions.

A subproject that meets one or more of the following criteria may be included in a maintenance reserve plan:

- Repair or replacement of functionally obsolete, damaged, or inoperable built-in equipment such as elevators, furnaces, plumbing fixtures, air conditioning, and ventilation.
- Repair or replacement of components of a plant such as exterior wood, masonry, ceilings, floors, floor coverings, doors, windows, roofs, sidewalks, parking lots, fencing, and exterior lighting.
- Repair or replacement of existing utility systems, such as steam lines, natural gas, air, electrical, water, and sewer.
- Correction of problems resulting from erosion and drainage.
- Work related to handicapped access, energy conservation, building and safety codes compliance, lead paint abatement, or asbestos correction.

A subproject that meets one or more of the following criteria is normally **not considered** maintenance reserve:

- Maintenance contracts to clean, maintain, repair, or protect existing plant, property, or equipment.
- Routine periodic maintenance such as servicing, adjusting, minor repairs, painting, scraping, cleaning, and spraying of plant or property.

- Repair or replacement of office, motorized, medical, laboratory, electronic, photographic, educational, cultural, computerized, and other specific-use, moveable equipment that is not permanently installed as a part of the plant or property.
- Leak testing and monitoring of underground storage tanks and the removal of underground storage tanks not associated with tank replacement.

Note: Institutions of higher education should see guidelines in Item C-149 C., Chapter 943.

Umbrella Projects

An umbrella project contains a series of identical or similar tasks. They can be small planning, acquisitions, construction or improvement projects, or equipment purchases. For example, a series of upgrades of wastewater treatment plants at correctional field units could be grouped into one umbrella project. You must separately identify, describe, and provide cost estimates for each task within the umbrella project. Consult with your DPB analyst if you need help in making this determination.

Blanket Projects

A blanket project provides authorization for a series of improvements to existing facilities or structures that are to be financed by nongeneral funds. The purpose of the blanket project is to furnish flexibility in responding to unanticipated needs identified during the biennium.

The initial budget request does not specifically define the scope and cost of the tasks within the blanket project. However, once a blanket has been approved, you must clearly define each subproject in terms of size and scope before it will be authorized for implementation. In addition, you must explain why subprojects submitted under the blanket project could not have been anticipated and included as a stand-alone project in your agency's six-year capital plan. The total budget for each task funded under a blanket project should not exceed $500,000. Your budget analyst can address specific questions about blanket projects.

Note: A blanket project should not contain nongeneral fund maintenance reserve subprojects. These nongeneral fund subprojects should be specifically identified and included in your agency's maintenance reserve plan.

Appendix B
Central Agency Responsibility for Lease Review

Role of the Department of General Services

The Department of General Services (DGS) reviews all leases, both capital and operating, as well as purchases and donations of real property to state agencies. Section 2.2-1149 of the Code of Virginia specifies that: " . . .No state department, agency or institution shall acquire real property by gift, lease, purchase or any other means without following the guidelines adopted by the Department and obtaining the prior approval of the Governor. The Department shall review every proposed acquisition of real property by gift, lease, purchase or any other means by any department, agency or institution of the Commonwealth and recommend either approval or disapproval of the transactions to the Governor based on cost, demonstrated need, and compliance with the Department's guidelines."

In addition, § 4-5.09a of Chapter 943 specifies that: "Agencies shall not acquire real property by lease until the agency certifies to the Director of the Department of General Services that (i) funds are available within the agency's appropriations made by this act for the cost of the lease and (ii) the volume of leased space conforms with the space planning procedures for leased facilities developed by the Department of General Services and approved by the Governor. The Governor may waive these requirements if, in his opinion, such action may avoid an increase in cost or otherwise result in a measurable benefit to the state and funds are available within the appropriations made by this act, without adverse impact on other projects or programs, or from unappropriated nongeneral fund revenues or balances. Any such waivers approved by the Governor shall be reported in accordance with § 4-8.00, Reporting Requirements."

The policies and procedures governing the leasing of real property can be found in "Chapter One: Acquisition by Lease," Real Property Management Manual, administered by the Bureau of Real Property Management within the Division of Engineering and Buildings.

Role of the Department of Accounts

The Department of Accounts (DOA) reviews information on complex long-term proposed leases to determine whether they are capital or operating leases. DOA also provides guidance and technical assistance to agencies in performing an economic analysis to determine if the terms of the lease are favorable to the Commonwealth. The economic analysis will help to determine the economic feasibility of the lease, including the best method of acquisition, and whether the implicit interest rate is reasonable when compared to Treasury Board financing rates.

The policies and procedures governing lease accounting can be found under "Lease Accounting," in DOA's *Commonwealth Accounting Policies and Procedures* (CAPP) *Manual.* The CAPP manual defines a **capital lease** as: "Any lease that meets one or more of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term;

- The lease contains a bargain purchase option;

- The lease term is equal to 75 percent or more of the remaining estimated economic life of the leased property, unless the beginning of the lease term falls within the last 25 percent of the total economic life of the leased property; and/or

- The present value, at the beginning of the lease term, of the minimum lease payments (reduced for executor costs and profit thereon) equals or exceeds 90 percent of the fair value of the leased property to the lessor, at the inception of the lease, less any related investment tax credit retained by the lessor and expected to be realized by him. This criterion does not apply if the beginning of the lease term falls within the last 25 percent of the total economic life of the leased property."

A **bargain purchase option** is: "A provision allowing the lessee, at his option, to purchase the leased property for a price that is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable, that exercise of the option appears, at the inception of the lease, to be reasonably assured."

The **estimated remaining economic life of the leased property** is: "The estimated remaining period during which the property is expected to be economically usable by one or more users with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term."

The **fair market value of the leased asset** is: "The price for which the asset could be sold in an arm's-length transaction between unrelated parties. The fair market value of the leased asset may be estimated in a number of ways:

- From the lease agreement;
- Ask the lessor;
- Compare to a similar purchased asset;
- Call the tax assessor; or
- Multiply the square foot of rental space by the estimated cost per square foot for similar assets."

The **present value** is: "The equivalent value now of a series of future payments, discounted back to the present date at a specific rate of interest."

These definitions are based on the generally accepted accounting procedures (GAAP), as set forth in the Governmental Accounting Standards Board (GASB) *Statement No. 13: Accounting for Operating Leases with Scheduled Rent Increases* and the Financial Accounting Standards Board (FASB) *Statement No. 13: Accounting for Leases.*

Role of the Treasury Board

The Code of Virginia outlines the oversight role of the Treasury Board when agencies and institutions enter into capital lease agreements. For those capital leases financed by the issuance of securities, § 2.2-2416, Code of Virginia, authorizes the Treasury Board to: " . . . Make recommendations to the Governor, notwithstanding any provisions to the contrary, on proposed bond issues or other financing arrangements;

approve the terms and structure of bonds or other financing arrangements executed by or for the benefit of educational institutions and state agencies other than independent state authorities, including bonds or other financing arrangements secured by leases, lease purchase agreements, financing leases, capital leases or other similar agreements; and agreements relating to the sale of bonds;"

Section 2.2-2416 also authorizes the Treasury Board to " . . . Approve, notwithstanding any provisions to the contrary, the terms and structure of bonds or other financing arrangements executed by or for the benefit of state agencies, boards and authorities where debt service payments on such bonds or other financing arrangements are expected by such agency, board or authority to be made, in whole or in part, directly or indirectly, from appropriations of the Commonwealth, including bonds or other financing arrangements secured by leases, lease purchase agreements, financing leases, capital leases or other similar agreements, and agreements relating to the sale of bonds;"

The Treasury Board also has an oversight responsibility when agencies and institutions enter into certain installment agreements. Section 2.2-2416 of the Code of Virginia states that: "The Treasury Board, or the Board's designee, shall review and approve the financial terms of all contracts for the purchase or financing of the purchase by agencies, institutions, boards and authorities which receive appropriations from the Commonwealth, i.e., the using agencies, of personal property, including personal property to be affixed to realty, whether by lease-purchase, installment purchase or otherwise, where payment of the purchase price is deferred through installment payments, includes the payment of interest, or is otherwise financed by the seller, lessor, or third parties."

Section 4-5.09 b of the Appropriation Act states: "Agencies acquiring personal property in accordance with § 2.1-179.2, Code of Virginia, shall certify to the State Treasurer that funds are available within the agency's appropriations made by this act for the cost of the lease."

The Treasury Board provides through the Master Equipment Leasing Program an umbrella equipment financing arrangement open to all state agencies and institutions. The guidelines governing the Master Equipment Lease Program are found in *Guidelines for Credit Purchases of Equipment and Energy Projects by State Agencies, Institutions, Boards & Authorities*, issued by the Treasury Board.

Additional requirements for telecommunication and information technology equipment

Section 4-5.06 b of the Appropriation Act outlines the responsibilities of the Virginia Information Technologies Agency (VITA) for the purchase, lease, or contract for certain telecommunications and information technology equipment, software, and services. VITA is responsible for the approval of contracts for telecommunications equipment.

Role of the Department of Planning and Budget

The *Instructions for Developing the Six-Year Capital Budget Request for 1998-2004* required agencies and institutions, for the first time, to submit a capital outlay request for any proposed capital lease. Agencies were advised that, beginning with the 1998-2000 biennium, all capital lease agreements must be submitted as capital requests. Agencies would no longer be able to enter into capital leases during budget execution without prior approval to initiate a capital project.

To ensure that no capital leases were inadvertently overlooked, agencies were required to submit information on all proposed leases of real property and equipment that have a value of $250,000 or more, and that contractually obligate the agency for five years or more. The five years would include any provision for automatic renewal at the option of the lessor that would extend the lease beyond five years. The reporting requirements apply regardless of the source of financing, and regardless of the program area (including auxiliary enterprises and sponsored programs). Agencies were also required to report on all existing capital leases.

Role of the Secretary of Finance and the Secretary of Administration

Section 4-3.03 of the Appropriation Act requires the Secretary of Finance and the Secretary of Administration to make recommendations on proposed capital lease agreements to the Chairmen of the House Appropriations and Senate Finance Committees on or before December 20 each year. It also authorizes the Secretary of Finance to promulgate guidelines for the review and approval of capital lease requests.