

March 21, 2003

MEMORANDUM

TO: Vice Presidents for Finance, Institutions of Higher Education
Budget Officers of Selected State Agencies

FROM: John M. Bennett

SUBJECT: Capital Projects Authorized by the 2002 Session of the General Assembly

I write to formally transmit the Capital Implementation Plan approved by Governor Warner and to provide guidance on the process for initiating the capital projects authorized by Chapters 827, 859, 855, 887, 854 and 884, 2002 Acts of Assembly. These acts are commonly referred to as the "Higher Education General Obligation Bond Package," the "Jumpstart Package," and the "Parks and Natural Areas General Obligation Bond Package."

As you are aware, the 2002 Session of the General Assembly authorized the issuance of nearly \$1.7 billion in tax-supported bonds to finance the construction of 310 individual capital projects. These bonds, issued by the Virginia College Building Authority (VCBA), Virginia Public Building Authority (VPBA), and general obligation debt, will be supported by general fund debt service appropriations.

As we have been discussing over the past few months, the capital outlay program approved by the 2002 General Assembly also places significant restrictions on the total amount of debt the Commonwealth can issue in any one fiscal year. This limit, established in Chapters 839 and 888, 2002 Acts of Assembly, prohibits the issuance of more than \$250 million in debt in any one fiscal year for the capital projects included in the previously mentioned bond packages. Given this limit, it is imperative that the construction of these 310 individual capital projects be actively managed to stay within both the \$250 million limit and available debt service appropriations. Because the flow of funds required to complete a capital project cannot be controlled once a state agency or institution of higher education has awarded a construction contract, state agencies and institutions will not be permitted to award construction contracts prior to the dates specified in the attached plan. The Departments of Planning and Budget (DPB), Accounts (DOA), Treasury, and General Services (DGS) will be working very closely to ensure that as these projects move forward, they do so while adhering to these constraints.

STEPS TO INITIATE CAPITAL PROJECTS

Capital projects will initially be authorized in a similar fashion to current practice. Prior to the initiation of any capital project included in the Higher Education General Obligation Bond Package, the Jumpstart Package, or the Parks and Natural Areas General Obligation Bond Package, state agencies and institutions of higher education must submit a DGS Form CO-2 to DGS for approval by DPB. (This requirement extends to all affected state agencies and institutions of higher education, regardless whether those agencies or institutions operate as “decentralized” entities.)

Once the CO-2 is approved, DPB will then allot 75 percent of the amount shown on that form for design services. State agencies and institutions of higher education should then proceed to follow the requirements established by DGS for capital outlay forms CO-3 through CO-6. While decentralized institutions of higher education may not be required to submit all of these forms for approval, they must file copies of such forms with DGS as quickly as possible. All capital outlay forms must be on file before a DGS Form CO-8 will be processed.

After the selection of a bid but prior to the award of a construction contract, state agencies and institutions of higher education **will be required to submit a CO-8 to DGS for approval by DPB**. Once approved, DPB will then allot any remaining design services amounts, the construction award amount, and an amount equal to two percent of the construction budget for contingencies. However, no allotment of construction funding will be made before the construction contract award date shown in Appendix I. On the submission of a CO-8, state agencies and institutions of higher education must also submit a revised draw schedule for their projects. Should either a CO-6 or CO-8 submitted by an agency indicate that a project is moving faster than the dates specified in the Capital Implementation Plan, the agency’s budget analyst will contact that agency or institution to discuss the situation.

The remainder of the project budget, if there is any, will be held in reserve to address unfunded equipment needs. State agencies and institutions of higher education reported a need for more than \$146 million in additional equipment funding. While state agencies and institutions of higher education may continue to process construction change orders within the amounts allotted for individual capital projects to address unforeseen circumstances, any such change orders will reduce the funds that could be made available for equipment.

AVAILABILITY OF FUNDS

The Department of the Treasury (Treasury) will be issuing bonds as required by the draw schedules submitted by state agencies and institutions of higher education. For the remainder of the current biennium, Treasury plans to issue about \$222 million in VCBA, VPBA, and general obligation bonds. It should also be noted that bond proceeds from the spring VCBA and fall VPBA bond sales are still available for use in reinitiating previously frozen capital projects or funding new VCBA or VPBA-A list projects.

As state agencies and institutions of higher education spend the funds allotted by DPB to individual capital projects, Treasury’s Division of Trust Accounting will be responsible for

reimbursing the agencies and institutions for those expenditures. Trust Accounting will, however, only reimburse these agencies and institutions for expenses to the extent that dollars were actually allotted for specific capital projects. Consequently, if an agency or institution spends more than the amount allotted by DPB, it will not be reimbursed for those expenses until an additional allotment of funds has been made. The Department of Accounts, the agency responsible for maintaining the Commonwealth Accounting and Reporting System (CARS), will be assisting the Division of Trust Accounting in monitoring capital projects' allotments. In addition, state agencies and institutions of higher education should also remember to complete environmental impact reviews as necessary. Completing these reviews is a requirement for the reimbursement of project expenditures.

FINAL NOTES

I hope these procedures will provide you with sufficient information to get these important capital projects' construction underway. Although some provisions of these procedures are different from those under which the Commonwealth is currently operating, they should enable us to ensure that these projects are constructed within the debt issuance and debt service limits imposed by the 2002 General Assembly. The Departments of Planning and Budget, Accounts, Treasury, and General Services will be working closely to ensure that the capital projects approved by the 2002 Session of the General Assembly move forward as quickly as possible. If you have any questions about these procedures, please contact your DPB budget analyst.

Thank you again for all of the hard work that your agencies and institutions put into this effort. Please feel free to call me if you have any questions or comments about this plan. We will be glad to provide any assistance we can.

cc: Ms. Sandra D. Bowen, Secretary of Administration
Mr. Whittington W. Clement, Secretary of Transportation
Mr. John W. Marshall, Secretary of Public Safety
Mr. W. Tayloe Murphy, Jr., Secretary of Natural Resources
Mr. Michael J. Schewel, Secretary of Commerce and Trade
Ms. Belle S. Wheelan, Secretary of Education
Ms. Jane H. Woods, Secretary of Health and Human Resources
Ms. Elizabeth B. Daley, Staff Director, Senate Finance Committee
Mr. Robert P. Vaughn, Staff Director, House Appropriations Committee
Mr. Richard D. Brown, Director, Department of Planning and Budget
Mr. D.B. Smit, Director, Department of General Services
Mr. David A. Von Moll, State Comptroller, Department of Accounts
Ms. Jody M. Wagner, State Treasurer, Department of the Treasury