Instructions for Preparing

Capital Project Requests

2014-2016 Biennial Budget

****

**Department of Planning and Budget**

**May 2013**

**TABLE OF CONTENTS**

**OVERVIEW………………………………………………………………………………...……1**

**APPLICABILITY…………………………………………………………………………..……1**

**PRIORITIES……………………………………………………………………………….…….2**

**GENERAL PROCESS………………………………………………………………….……….2**

**Pool projects……………………………………………………………………………………..………….2**

**Stand-alone projects………………………………………………………………………….……………3**

**PROCEDURAL SUBMITTAL………………….…………………………………………………………. 3**

**Procedural…………………………………………………………………………………………………..3**

**Substance……………………………………………………………………………………………………4**

**Source of Requests………………………………………………………………………………..4**

**Narrative…………………………………………………………………………………………..4**

**Cost Estimates……………………………………………………………………………………..4**

**Capital Leases………………………………………………………………………………..……5**

**SIX-YEAR CAPITAL OUTLAY PLAN………………..…………………………………………………6**

**MAINTENANCE RESERVE……….………………………………………………………………………..6**

**APPENDIX A: DEFINITIONS AND CRITERIA……..……………………………………………….7**

**Acquisition…………………………………………………………………………………………………..7**

**New Construction…………………………………………………………………………………………...8**

**Improvements………………………………………………………………………………………...……..9**

**Equipment…………………………………………………………………………………………………...9**

**Demolition…………………………………………………………………………………………………...9**

**Energy Performance Projects………………………………………………………………………………9**

**Capital Projects Funded in the Operating Budget………………………………………………………10**

**Multi-Task Capital Projects……………………………………………………………………………....11**

**APPENDIX B: CAPITAL PROJECT PHASES………………………………………………………..12**

**APPENDIX C: POOL PROJECT PROCESS………………….……………………………………….13**

**OVERVIEW**

This document provides guidance for agencies for submittal of their capital budget requests for inclusion in the Governor’s proposed 2014-2106 biennial budget and in the update of the Commonwealth’s Six-Year Capital Outlay Plan.

**Deadline: Agency submissions should be submitted to the Department of Planning and Budget by June 21, 2013.**

**APPLICABILITY**

The definition of what constitutes a capital project and the descriptions of the various kinds of capital projects are set out in Appendix A of this document. These instructions are to be used to prepare the following for submittal to the Department of Planning and Budget (DPB):

1. Requests for funding supplements to existing capital projects;
2. Requests for funding equipment for previously funded projects;
3. Requests to proceed further on projects that have been authorized to proceed to the preplanning or detailed planning stages but have not been authorized to proceed to the construction stage;
4. Requests for new capital projects; and
5. Requests for authorization to enter into new capital leases or to renew existing leases that will soon expire.

The process set out in these instructions applies regardless of the source of financing, whether it be general fund, nongeneral fund, federal trust fund, state debt, or institutional debt. However, projects of Level III institutions of higher education that are planned to be funded 100 percent with institutional funds and for which the institutions do not plan on requesting any future general fund operating support are exempted.

Whenever it is used in these instructions, the term “general fund related sources” includes tax-supported debt, such as revenue from bonds issued by the Virginia Public Building Authority or the Virginia College Building Authority and capital leases paid for in whole or in part by the general fund or the Transportation Trust Fund.

**PRIORITIES**

Provisions of the Code of Virginia require that the following factors be taken into consideration in determining the priority of capital projects:

1. Projects that address safety, health, regulatory, security, environmental requirements, or accreditation;
2. Projects to upgrade or replace major mechanical systems and utility infrastructure;
3. Projects to renovate or maintain existing facilities;
4. Projects to construct, expand, or acquire facilities in order to meet programmatic needs;
5. For public institutions of higher education, projects that meet State Council of Higher Education for Virginia recommendations or guideline parameters;
6. Projects that improve energy efficiency;
7. Projects that are listed on, or eligible to be listed on, the Virginia Landmarks Register;
8. Renovation projects for which a facility condition assessment has been completed; and
9. Projects previously planned.

**GENERAL PROCESS**

Almost all projects approved for funding from general fund related sources will be placed in a funding pool. Other projects, i.e. those funded from special funds, institutional debt, or nongeneral fund related state debt will be set out as stand-alone projects in the budget bill and resulting appropriation act.

Pool projects

Sections 2.2-1519 and 2.2-1520 of the Code of Virginia establish capital project pools and set out the procedures for implementing the pool process. The Appropriation Act will establish the total appropriation available for all projects in the pool. The Act will also list the projects to be funded from that appropriation, but will not list amounts for the individual projects.

For projects that are approved to proceed beyond the request stage, state statutes set out a series of stages for project review and release of funding: preplanning, detailed planning, construction, and equipment. (See Appendices B and C for a more detailed discussion of these phases.) However, once a project has been approved to advance beyond the request stage, the approval level can differ for individual projects. Some projects may be approved “up front” for full funding whereas other projects may be approved initially to proceed only to one of the planning stages, preplanning or detailed planning, with consideration of approval to proceed to the construction stage to come later.

Regardless of the level of approval, however, the general process of releasing funding is the same. If there is to be a preplanning stage, the amount of funding available is usually designated in the applicable Appropriation Act. When an agency has been authorized to proceed to the detailed planning/preliminary design stage on a project, the Bureau of Capital Outlay Management (BCOM) of the Department of General Services will review the detailed planning documents and designate a total cost for the project. If the lowest bid or best proposal does not exceed 105 percent of the funding provided for the project, the agency will be authorized to enter into a construction contract. If the contract cost exceeds 105 percent of the provided funding, the statutes set out the process to be used by the agency: (1) reduce the project’s scope while ensuring that the project is substantially similar in quality and functionality to the original project, (2) implement cost saving measures relative to the project design, (3) supplement the project with other funds available to the agency, or (4) request supplementary funding from the Governor and General Assembly.

Stand-alone projects

Those projects that are to be funded solely from an agency’s special funds, federal trust, or revenue bonds other than those backed by general fund appropriations are not subject to the pool process and are set out in the budget bill and Appropriation Act as stand-alone projects. However, because they do utilize some form of public funds, they must still be justified and approved for inclusion in the budget bill as set out in these guidelines.

**PROJECT SUBMITTAL**

**Procedural**

Agencies must use the Performance Budgeting System for submitting capital budget requests to DPB. The detailed instructions for using the system can be found on DPB’s website under:

<http://dpb.virginia.gov/forms/20100916-1/CapitalBudgetRequests-EnteringRequests.pdf>

There are some aspects of the documentation that agencies need not follow in preparing capital budget requests. The PB System is set up to enable agencies to break down a capital request into its various phases, with funding for each phase being shown in different biennia. In addition, on the “Project Costs” tab, agencies are directed to enter both the total costs for the project as well as the amount being requested for the upcoming biennium. In reality, both the phasing of a project and the amounts for each phase are determined by the Appropriation Act and the review process described earlier. Therefore, in the “Funding Request” tab, agencies need only show “Full Funding” as the phase for new projects and “FY 2015” for the Year, along with the total amount. (For requests for supplemental funding or funding for furniture, fixtures and equipment (FFE), agencies should select the appropriate choice.) If this approach is taken, on the “Project Costs” and “Other Costs” tabs, put the same amounts in the “Total Project Costs” and “Requested Funding” columns.

Project submissions that do not have complete and/or accurate information are not guaranteed consideration for inclusion in the Governor’s introduced budget.

**Substance**

*Source of Requests*

The starting point for developing an agency’s capital budget request for projects funded from general fund related sources should be the projects listed for the agency in the Commonwealth’s approved Six-Year Capital Outlay Plan. The most recent plan is set out in HB 2194 (Chapter 309) and SB 1265 (Chapter 404), enacted by the 2013 General Assembly. The plan includes projects that have been approved for some level of funding, as well as projects for which no funding has been approved. If a project on the Six-Year Plan has not been approved for funding and the agency does not submit a request for funding, serious consideration will be given to deleting that project from the next version of the Six-Year Plan.

Other sources for requests for capital projects should be the agency’s strategic plan, master site plan, and the agency’s assessment of the conditions of its physical plant and future needs.

*Narrative*

This section is probably the most important part of the budget request. The information in this section is the primary basis the DPB analyst will use in considering whether to recommend to the Governor that the project be included in his proposed budget bill. Therefore, it is incumbent upon the agency to clearly, accurately, and thoroughly describe what is being requested and why.

The description should tell, in some detail, what is being requested. It should include a discussion of the size and scope of the proposed project. In addition to a measure of square footage, “size” and “scope” encompass the capacity of a facility, e.g. number of classrooms, number of beds, gallons, etc., if applicable, as well as the overall function and intended use of the project. Institutions of higher education should include information on any required increases to student fees related to a project.

The justification is why the agency is requesting the project: why it is needed and how it will enable the agency to perform its mission better. This explanation should be as specific and detailed as possible, without resorting to grand-sounding generalities.

*Cost estimates*

In explaining the method used to determine the amount of funding requested for a project, an agency needs to provide as much detail as possible. For example, the agency should also include any specific, unique physical or programmatic features that may differ from a typical project of the type being requested, such as a severely sloping site, pedestrian bridges, special lab requirements, etc. If the agency has any supporting documentation that further describes the project such as a pre-planning study, the agency should electronically attach that documentation. Additionally, if the amount requested is higher than what would be considered industry standard for that building type of very good quality, the agency should identify specific reasons for the said premium as well as identify those premiums separately. BCOM will use this explanation as a starting point in preparing its cost estimate, which will then serve as the amount used in developing the budget recommendation. If there is insufficient information in the project request, a BCOM cost estimator may request additional information from the agency.

*Capital Leases*

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.), then the lease must 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. The “capital lease” definitions are based on the generally accepted accounting procedures (GAAP), as set forth by the Governmental Accounting Standards Board (GASB).

The Appropriation Act stipulates that agencies must obtain authorization through the capital outlay review process before entering into a capital lease. Appropriations to support all lease payments will be included in the operating section of the Appropriation Act.

Various state agencies are involved in the administration of leases. The Department of General Services has general responsibility for negotiating and administering all leases for the Commonwealth. The Department of Accounts determines whether a proposed lease meets the definition of a capital lease. If the lease payments are to be made with proceeds from the issuing of securities, the Treasury Board must review and approve such arrangements.

In preparing their capital budget requests, agencies should be concerned not only with new capital leases they propose to enter into or current ones that need renewal, but should also review any current operating or capital leases that will be subject to renewal within the next five years. Sometimes it may be more cost beneficial to build a new facility or buy an existing one than to enter into a lease. Because the process for getting approval and then purchasing or building a new facility takes several years, the lease vs. own analysis should be done well in advance of the renewal date of the existing lease.

**Six-Year Capital Outlay Plan**

The Governor is required by statute to submit annually a bill to the General Assembly listing the capital projects which he anticipates will be supported by general fund related sources over the ensuing six years. It is based on project requests submitted by agencies and recommendations made to the Governor by an advisory committee, comprised of the Secretary of Finance, Director of the Department of Planning and Budget, Director of the Department of General Services, Executive Director of the State Council of Higher Education for Virginia, and staff directors of the House of Delegates Appropriations Committee and the Senate Finance Committee. The plan becomes final after the bill is passed by the General Assembly and signed into law by the Governor. Although the plan serves as the basis for future capital budget requests and recommendations, being included in the plan does not necessarily mean that a project will be funded.

**Maintenance Reserve**

Updating an agency’s maintenance reserve plan is another component of the capital project process. Separate instructions will be issued to agencies regarding this process.

**Questions or More Information**

If agency staff need additional information or have any questions concerning the submittal of capital budget requests, they should contact their DPB analyst.

**Appendix A**

**Definitions and Criteria**

This appendix helps determine how to categorize and budget for capital outlay projects.

These definitions and criteria apply to any capital outlay request regardless of whether the Commonwealth owns or leases the facility. Depending on its cost, size, and scope, a project may be funded in an 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:

* Acquisition of real property;
* New construction projects with a total project cost exceeding $1 million;
* Improvements, renovations, repairs, replacement, maintenance, or combination projects for a single building with a total project cost exceeding $1 million; and
* Umbrella projects.

Capital outlay projects fall into one of five general types -- acquisition, new construction, improvements, equipment, or demolition. 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 determines the project type.

**Operating or Capital Budget?**

Agencies have some discretion in determining whether expenses related to property, plant, and equipment may be included in the operating or 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. However, some expenses can fall into either the capital or operating categories. The following definitions and criteria provide guidance on whether an expense should be considered capital or operating.

**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 in the instructions.

**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; and

• 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 (does not apply to site development or building systems projects);

• It has a total project cost of $1 million or greater; or

• It is acquired through a lease with options to purchase or any other alternative financing approach.

Construction projects creating less than 5,000 square feet or costing less than $1 million may be treated as either an operating expense or as a capital project.

**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; and
* 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 $1 million or greater, it is subject to the capital project proposal process. If the cost is less than $1 million, it may be treated as either an operating expense or as a capital project.

**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 such as Virginia Public Building Authority or Virginia College Building Authority, it must be requested in the capital budget.

No precise criteria exist for the funding of equipment purchases as a stand-alone capital

project. An agency should consult with its 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.

**Demolition**

**Definition.** Removal of a building or facility either for land clearance or to make land

available.

**Criteria.** Demolition of any building (plant), regardless of size and type, must be

authorized by the Governor prior to proceeding (§ 2.2-2402.B, *Code of Virginia*). This includes

obtaining recommendations for approval to demolish the building / structure for the Art &

Architecture Review Board and the Department of Historic Resources. The Division of

Engineering and Buildings' Directive Number One provides specific instructions on the approval

process.

**Energy Performance Projects**

The program for energy-efficient performance (ESCO) projects is administered by the Department of Mines, Minerals and Energy (DMME) and the Department of General Services (DGS), with financing arranged by the Department of the Treasury. Ordinarily, the expenditures for projects in this program are considered operating expenses. The Appropriation Act stipulates, however, that, if an ESCO project entails any of the following activities, it is subject to the capital outlay process:

* Constructing, enlarging, altering, repairing or demolishing a building or structure;
* Changing the use of a building so that the new use requires greater degrees of structural strength, fire protection, exit facilities or sanitary provisions; or
* Removing or disturbing any asbestos-containing materials during demolition, alteration, renovation of, or additions to, buildings or structures.

Also, if the cost of the total project exceeds $3 million, it shall be subject to the capital budgeting process. However, if the energy savings from an ESCO project offset the debt service, interest payments and the cost of the project, the project shall not be subject to the capital budgeting process if the total cost does not exceed $7 million.

If the ESCO project qualifies as a capital project only because it exceeds the cost limitations and does not entail any of the other elements enumerated in the previous paragraph, the agency does not need to follow all the steps of the capital outlay process. The project must be reviewed by the Department of Planning and Budget (DPB) and submitted to the Governor for approval, but the request for its review and approval should not be submitted in the PB System. Rather, it should be submitted separately to DPB, along with the detailed proposal document, for review and recommendation to the Governor. Furthermore, once such an ESCO project is approved , the agency will not have to submit the CO forms required by the Construction and Professional Services Manual.

Finally, all ESCO projects costing more than $250,000, but not meeting any of the criteria to be treated as a capital project, must be reported to DPB in the fiscal year the project is initiated.

For additional guidance concerning ESCO projects, agency staff should contact the Department of Mines, Minerals and Energy and the Department of General Services.

**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 an agency's operating budget. However, generally an agency must complete projects

funded in its 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 that are established

in the *Code of Virginia, the Construction and Professional Services Manual, the Virginia Uniform Statewide Building Code,* and other regulations for projects in the capital budget. In addition, any projects, other than those for institutions of higher education, costing more than $250,000 and less than $1 million and funded in the agency’s operating budget must be reported to DPB in the fiscal year in which the project is initiated.

**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. (Separate instructions will be issued for submittal of maintenance reserve project requests.) Other types of multiple task projects are umbrella projects and blanket 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. An agency could submit a single request that would include all the subprojects of an umbrella project. Alternately, the agency could submit separate requests for projects, which then could be grouped into an umbrella project by the DPB analyst at the recommendation stage. Consult with your DPB analyst to determine which approach to take.

A blanket project provides authorization for a series of improvements to existing facilities or

structures or initial planning for projects that are to be financed solely 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, the agency must clearly define each subproject in terms of size and scope before it will be authorized for implementation. In addition, the agency must explain why subprojects submitted under the blanket project could not have been anticipated and included as a stand-alone project in the agency’s Six-Year Capital Plan. The total budget for each task funded under a blanket project should not exceed $1 million unless otherwise provided in the Appropriation Act. Your DPB budget analyst can address specific questions about blanket projects.

**Appendix B**

**Capital Project Phases**

As explained in the main body of these instructions, capital projects funded with general fund-related sources will likely be funded in phases. These phases are defined and described below.

**“Construction and Professional Services Manual”,** published by the Department of General Services,contains policies, procedures and guidance that state agencies must follow in the planning, design and execution of both capital outlay and non-capital outlay projects.

**"Pre-planning”** means a process meant to obtain a more detailed definition and cost

estimate of a project. It may include the following elements, as appropriate:

1. Statement of program definition including functional space requirements,

estimates of gross and net square footage, and functional adjacency requirements;

2. Analysis of program execution options, including review of new construction

versus renovation alternatives, necessary phasing or sequencing of the project,

and coordination with other ongoing or proposed capital projects;

3. Site analysis, including options considered and, for the site chosen, any specific

issues related to topography, utilities, or environment;

4. Presentation, including site plan, conceptual floor plans and elevations, and

conceptual exterior;

5. Identification of any Uniform Statewide Building Code compliance or permit

requirements unique to the project; or

6. Cost estimate for the project to include total cost of the project, construction

cost for the project, total cost per square foot, construction cost per square foot,

costing methodology, and identification of any factors unique to the project that

may impact overall project cost.

**“Detailed planning/preliminary design”** means the preparation of architectural and engineering documents up to the preliminary design stage (≈40% of design), as defined in the Construction and Professional Services Manual.

“**Construction**” means the following steps, as set out in the Construction and Professional Services Manual: preparation of working drawings and specifications, advertising for a sealed bid or proposal, awarding a contract pursuant to law, and actual construction of a project.

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

**“FFE”** stands for “furniture, fixtures and equipment” and means furnishings and movable equipment needed for the facility to be functional.

**Appendix C**

**Pool Project Process**

The pool funding process combines, or “pools”, capital projects together for funding (as opposed to funding them individually). The broad intent of the pool process is to provide for a more flexible funding process while also ensuring that adequate cost controls are in place. To date, there has been two types of project pools: detailed planning and construction. Detailed planning pools provide funds for agencies to develop the design through the end of the preliminary design phase (i.e., the completion of ~40% design). Construction pools provide funds for execution of the entire project including: design, construction, and FF&E (furniture, fixtures, and equipment).

As a general rule, and as depicted in the figure below, the Bureau of Capital Outlay Management (BCOM) at the Department of General Services provides at least three cost reviews before funding is authorized for construction. First, there is an initial review in the early “PB stage” when the agency first enters the project into the PB system administered by the Department of Planning and Budget (DPB) and the project is initially considered by DPB for possible inclusion in the Governor’s recommended budget bill. The second cost review occurs at the schematic stage of design (i.e., the completion of ~20% design); this review provides the agency with a cost target for the project’s construction and soft costs. The project is reviewed again at the completion of the detailed planning phase (i.e., the completion of preliminary design, or ~40% design); after this review, project/construction funding may be recommended or authorized. All reviews include discovery about the project details and scope in order to right size the budget to ensure that agencies have adequate funds to execute the project.

