

Instructions for Preparing Capital Project Requests

2020 General Assembly Session



Department of Planning and Budget

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➤ OVERVIEW

This document provides guidance to agencies for the submission of capital budget requests for inclusion in the Governor's Introduced 2020-2022 biennial budget that will be submitted to the 2020 General Assembly and in the update of the Commonwealth's Six-Year Capital Outlay Plan. It also provides guidance for implementing the maintenance reserve program.

Deadline: Agency submissions are due to the Department of Planning and Budget by July 26, 2019.

➤ 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 yet been authorized to proceed to the construction stage;
4. Requests for new capital projects (improvements, major repairs, renovations, new construction, acquisitions, etc.); 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 all Level III institutions of higher education and of those Level II institutions delegated for capital, which are 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.

➤ PRIORITIES

In light of the large number of projects authorized in recent years and the desire for the Commonwealth to not exceed its debt capacity, agency requests for general fund-related projects in the following categories will be given highest priority:

- Projects that address an immediate safety, health, regulatory, or environmental concern;
- Equipment for projects previously approved for construction;

- Supplemental funding for projects previously approved for construction;
- Projects that directly support one of the Governor’s priorities;
- Projects for which preplanning or detailed planning was previously authorized by the Governor and General Assembly and are expected to be completed and reviewed by the Division of Engineering and Buildings (DEB) of the Department of General Services (DGS) by November, 2019;
- Projects taking advantage of limited, one-time economic opportunities that will not exist if delayed; and,
- Funding to address a significant maintenance reserve-type issue at an existing facility.

➤ **GENERAL PROCESS**

Most projects approved for funding from general fund-related sources will be placed in a funding pool. Other projects, primarily those funded from nongeneral funds, institutional debt/9(d) bonds, or nongeneral fund-related state debt/9(c) bonds, are set out as stand-alone projects in the budget bill and resulting Appropriation Act.

Note that the term “general fund-related sources,” as used in these instructions, includes tax-supported debt, such as proceeds 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.

Pool projects

Sections 2.2-1519 and 2.2-1520, Code of Virginia, establish capital project pools and procedures for implementing the pool process. The Appropriation Act or separate bond legislation establish the total appropriation available for all projects in a given pool. The Act or separate bond legislation also list the projects to be funded from the appropriation in a given pool, but will not list amounts associated with individual projects.

State statutes set out a series of project stages, listed below. Funding for authorized projects is often phased in alignment with these stages (see Appendices B and C for a more detailed discussion of these phases):

1. Preplanning;
2. Detailed planning;
3. Construction; and
4. Equipment.

The initial stage for which a project is approved can differ for individual projects. Some projects may be approved “up front” to provide full funding for the entire project, whereas other projects

may initially be approved 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 initial level of approval, the general process of releasing funding is the same for all pool projects.

Preplanning/Detailed Planning Funding Phases: Depending on the situation, funding for planning can come from several sources: bond proceeds authorized for construction pools, a central capital outlay planning pool, the general fund, or the agency's nongeneral fund resources. If an agency uses its nongeneral funds for preplanning or detailed planning, it will be reimbursed from general fund-related sources when the project is authorized to proceed to the construction phase.

Construction Funding Phase: After an agency has completed the detailed planning/preliminary design stage for a project, the DGS Division of Engineering and Buildings reviews the detailed planning documents and calculates a funding amount for the project that is authorized by the directors of DGS and DPB. If the lowest bid or best proposal received for the project does not exceed 100 percent of the amount authorized, or it is between 100 and 105 percent and the agency receives authorization for additional funds through DGS' Appeal Process, it will be authorized to enter into a construction contract.

If the contract cost exceeds 105 percent of the initial authorization, current law establishes the following options to be used by the agency:

- 1) Implement cost saving measures relative to the project design;
- 2) Supplement the project with other funds available to the agency;
- 3) Reduce the project's scope while ensuring that the project is substantially similar in quality and functionality to the original project; or
- 4) Request supplemental funding from the Governor and General Assembly.

Stand-alone projects

Those projects that are to be funded solely from an agency's nongeneral funds, federal trust, or revenue bonds other than those backed by general fund appropriation are not typically 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 still must be justified and approved for inclusion in the budget bill as set out in these guidelines.

Projects funded from general fund-related sources have routinely been authorized in "pools" as described above; however, they also may be set out in the budget bill and Appropriation Act as stand-alone projects and not as part of a capital construction pool.

➤ CAPITAL BUDGET REQUEST SUBMISSIONS

General

Agencies must use the Performance Budgeting (PB) System's "Capital Budget Request" module to submit capital budget requests to DPB for each project being requested. Agencies should then prioritize each of their Capital Budget Request submissions using the "Capital Budget Request Prioritization" module. Both modules can be found in the drop-down list in the PB system under the heading "Capital Budget."

Detailed instructions for using the PB system can be found on DPB's website under:
<http://dpb.virginia.gov/forms/20100916-1/CapitalBudgetRequests-EnteringRequests.pdf>

Project submissions that contain incomplete or inaccurate information may not be considered for inclusion in the Governor's introduced budget.

Note: The first tab of the capital budget request module includes a series of items with check boxes. These are used to indicate if any of the following apply:

- **O & M Costs:** Select if the capital budget request will result in eventual operating and maintenance costs (or savings). Once selected, the O & M Costs tab will appear for data entry.
- **Significant Energy Costs:** Select if the capital budget request will contain significant energy costs. Once selected, the Energy tab will appear for data entry.
- **Significant Technology Costs:** Select if the capital budget request will contain significant technology costs. Once selected, the Technology tab will appear for data entry.
- **Possibility project will be used by other than a state or local governmental entity, or for research under sponsored programs (higher education):** Select if this statement is true and the project is requested to be funded with tax-supported debt or general fund. This is intended to help identify projects that may require taxable bonds as opposed to tax-exempt bonds, which are typically used. These types of projects are most frequently requested by institutions of higher education, but this could also be applicable to projects of other types of agencies. The laws and regulations governing the taxable status of bond proceeds are exceedingly complex. Generally speaking, if an entity other than a state or local government agency is expected to occupy or use all or a portion of a facility, the bond funding potentially could be taxable. If this may be the case for a requested project, agencies are asked to click on the box. Checking the box will not necessarily result in the bond funding being taxable debt if the project is ultimately approved; but will enable DPB to give the Department of the Treasury early notice of projects with the potential to require taxable financing. Treasury will then determine if taxable bonds are applicable.

Previously approved or submitted projects

The PB System stores data from requests submitted in previous years. As a result, if an agency is submitting a request for a project previously submitted, it need only pull up the previous data and narrative for modification or updating instead of preparing the whole submission from scratch. When doing so, please be aware of the following:

Resubmissions: To resubmit a request for a project that was requested in a prior year, but was not approved in any way, on the overview tab the agency may select “Previously Submitted” under “Request Origin.” After the entry of the agency code and name, PB will produce a field of previously submitted projects. Click on the “Q” button and select the appropriate title from the list. Subsequently, clicking on the “Load Previous Project/Request Data” button will populate the request with the previous narrative and cost data that can then be edited.

Equipment and supplemental funding: For requests for equipment or supplemental funding for previously approved projects, select “Previously Approved” in the “Request Origin” field and then the appropriate project from the list provided.

Supplemental funding requests for general fund-supported pool projects must attach documentation demonstrating that the agency has met the following, as required by § 2.2-1519 E.3, Code of Virginia:

An agency or public educational institution may request a supplemental allocation of general fund-supported resources through the budget process only if it submits a written certification to the Chairmen of the House Appropriations and Senate Finance Committees, the Director of the Department of General Services, the Director of the Department of Planning and Budget, and, for public institutions of higher education only, the Executive Director of the State Council of Higher Education, which certification (i) states that additional funding from nongeneral fund sources as described in subdivision 1 will be insufficient to pay for the full amount of the project cost that is in excess of 105 percent of the general fund-supported resources allocated to the project and (ii) provides a detailed analysis and description of the project as modified for a reduction in size or scope as described in subdivision 2 as well as a justification for why such modifications in size or scope cannot be achieved.

Pool Projects that Completed Planning: Although pool projects authorized to proceed only to a planning stage have been assigned a project code and have been approved for funding, the PB System does not store previous narrative and cost data under that project code. In submitting a request for full funding for a project for which detailed planning has been completed and approved, an agency should select “Previously Submitted” as the “Request Origin” and proceed with the appropriate steps. In the narrative description, however, identify the project as one for which detailed planning has been completed and approved and provide the project code.

Narratives Request Section

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

Description Narrative:

The description should tell, in some detail, what is being requested and clearly define the **size and scope** of the proposed project, including the following:

- An estimate of what portions of the project are acquisition, renovation, and new construction and the life expectancy of the facility/major components;
- Measures of size and scope including square footage and applicable measures encompassing the capacity of a facility (e.g. number of classrooms, number of beds, gallons, etc.), and methods or sources used to determine the proposed scope;
- The overall function and intended use of the project, including an estimate of the general programmatic allocation of space (e.g. 40 percent classroom, 40 percent laboratory, and 20 percent office); and
- Information regarding any expected impact on operating and maintenance costs (or savings) or required increases to nongeneral fund revenue sources (such as increases to student fees related to projects at institutions of higher education).

Justification Narrative:

The justification should identify the reason or need for the project. It should explain how the project supports the agency and its statutory mission, objectives, and activities. This explanation should be as specific and detailed as possible and include the following:

- Programmatic activities (current and projected) that would be affected by the project and identification of whether the project is required to continue current services, handle a workload increase, or provide new or better quality services. Include a description of the services, operations, or activities that will be affected;
- Description of existing facilities and why such facilities are inadequate or insufficient, such as age and condition of current facilities, maintenance history, interruptions of services, health/safety issues, legal mandates, etc.;
- The number and types of clients and/or staff that will benefit from the project; and
- Potential alternatives to the proposed project and rationale for selecting the requested project, including the estimated cost of each alternative considered.

Cost Estimates

The “Funding Request” and “Project Costs” sections are found in two different tabs in the PB module and are used to identify the amount and source of requested funding and delineate cost estimates for project components and by units of measure of the project’s size and scope.

Capital budget requests submissions should be limited only to projects for which funding will be needed by FY 2022 (prior to June 30, 2022), meaning that the funding would begin to be utilized prior to the end of the 2020 – 2022 biennium. Do **NOT** submit requests for projects that would not begin to utilize requested funding until future biennia (FY 2023/ July 1, 2022, and onward).

Funding Request Section:

The Funding Request tab should identify the funding needed to complete the project as detailed below.

Funding Request Phase

Almost all projects should reflect the total estimated costs to complete the entirety of the project as the requested funding amount, with the exception of those for which only supplemental construction funding or funding for furniture, fixtures, and equipment (FF&E) is required. Both the phasing of a project and the amounts for each phase are established by the Appropriation Act or any separate bond legislation and the review process described earlier. Therefore, the “Funding Request” tab defaults to “Full Funding” in the phase field, and funding phasing decisions will be made by the Governor and the General Assembly.

Requests for supplemental funding or funding for furniture, fixtures and equipment (FF&E), agencies should override the default and select the appropriate phase (“Supplemental Funding,” “Cost Overrun,” or “Equipment Purchase”).

Year Selection

Agencies should choose “FY 2021” or “FY 2022” for the Year. In rare cases where funding availability is very time sensitive, FY 2020 may be chosen for consideration; however, due to the timing of the final enactment of the budget, any FY 2020 adjustments would not be approved or available until towards the end of FY 2020.

Subobject Selection

Agencies should select subobject 2411, “Unallotted Capital Amount,” for all requested amounts.

Fund Selection

For the fund field, use the following guidelines:

- “Regular” projects to be funded with either general fund (GF) or tax-supported bonds should select GF Fund 01000. During budget development, after consideration of the available GF resources and other factors, the Governor will decide whether to provide general fund support in the form of general fund appropriation or tax-supported bond debt;
- Projects or portions thereof for nongeneral fund (NGF) agencies and institutions of higher education to be funded with agency NGF resources should identify the appropriate fund detail; and
- Projects to be funded with revenue bonds should use 08130 (9c bonds) or 08150 (9d bonds), as appropriate.

Methodology

Explain the method used to determine the amount of funding requested for the project in detail and identify any specific or unique physical or programmatic features that may differ from a typical project of similar type and affect project costs (e.g. a severely sloping site, pedestrian bridges, special lab requirements, etc.). Attach any available supporting documentation that further describes the project, such as a preplanning study. If the amount requested is higher than what would be considered industry standard for that building type of very good quality, explain the specific reasons for the premium and identify those premiums separately.

This and other information in the request will be used by DEB as a starting point to prepare its own cost estimate, which is used in developing the budget recommendation. If there is insufficient information in the project request, a DEB cost estimator may request additional information from the agency.

Project Costs Section:

The module is designed to enable the agency to select which detailed line items to use for each project by using the steps below. Note that the rows in the Project Costs tab with titles in bold are “read-only” and associated amounts will automatically reflect the sum of the detailed line items associated with these categories.

1. Click on the box labeled “Add Other Costs,” located at the upper right corner of the grid.
2. A list of the major cost categories with associated detailed line items should appear.
3. Click on the check box for each line item cost that needs to be included in the cost estimate. Alternatively, all the line items can be selected by clicking on the check box located in the “Include in Project Costs” column heading.
4. After all the applicable line items have been selected, click on “Save.”
5. The Project Costs grid should reappear, populated with the line items selected.
6. Fill in the estimated amount needed for each line item in the “Requested Funding” column.
7. If a specific line item is needed, but was not included in the original selection, click again on “Add Other Costs,” to go back to select the applicable line item, and then save.

8. After all estimated amounts have been entered for each line item, click on the box labelled “Update Totals”. This will update the subtotals for each major cost category and the total project cost. The total cost should equal the amount entered in the “Funding Request” tab.

DGS Project Planner Form

On the Project Cost tab of the PB capital request module, there will be a link to the DGS Forms Center. Use the Forms Center to find Form CR-1 (DGS-30-199) Project Planner, which is designed to assist agencies in developing the program, scope, and projected cost for a capital project. **Agencies submitting requests for general fund-related funding especially need to complete the form and attach it to the submission.** Doing so will provide DEB with project information needed to estimate a project’s cost within the limited timeframe for budget review.

As an additional service, DEB is available to assist agencies in the development of project cost projections. When taking advantage of this service, agencies are responsible for the development of their project program/scope. Please be aware that there is a charge for this service and DEB billable rates apply.

To learn more about the CR-1, refer to the following DEB newsletters:

- DEB Newsletter #37: <https://cms.dgs.virginia.gov/Newsletter/Download/46>
- DEB Newsletter #53: <https://cms.dgs.virginia.gov/Newsletter/Download/63>

Special Notes on Requested Amounts:

Equipment for previously approved projects:

In the “funding report” issued upon the completion of detailed planning for a pool project, DEB includes in the recommended budget an amount for furniture, furnishings, and equipment (FF&E). Ordinarily, the agency should use this amount in its request for FF&E. If the agency submits a request for an amount higher than that recommended by DEB, it must provide a detailed justification for the change.

As a general rule, funding for equipment for projects previously authorized should be requested if it is expected that the project will be completed before December 2021. **DPB will not assume that funding for equipment should be considered simply because the project is under construction; the agency is responsible for initiating requests in PB for equipment.**

Projects previously approved for planning:

If an agency wants full funding for projects that were funded only for a planning stage, it must submit a capital project request. **DPB will not assume that the project should be considered for full funding simply because planning funds were previously authorized. Without a request for full funding submitted in the PB system, a project will not be considered.** Agencies should submit requests for the total cost of these projects, including all planning costs that were previously funded from the central planning project (Fund 09650) or

agency nongeneral funds. The total amount requested should conform to the recommended amount in the “funding report” issued by DEB upon approval of detailed planning. If available, the agency should attach the most recent schematic report or funding report.

➤ **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. The Appropriation Act stipulates that agencies must obtain authorization through the capital outlay review process before entering into a capital lease and any acquisition of property that may take place pursuant to such a lease must be authorized as a capital project.

Exceptions: All Level III institutions of higher education and those Level II institutions of higher education delegated for leasing are exempted from this requirement for those projects that are funded entirely from nongeneral fund-supported revenues and will not require general fund appropriation for operation and maintenance.

In preparing 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 also should 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 receiving 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.

If a capital lease is due to expire within the next two years and the agency expects to exercise any option in the lease agreement to acquire the property, it should submit a request to acquire the property. Even if there is no cost, or only a nominal cost, for the property itself, there will likely be closing costs associated with any property acquisition. Those costs should be included in the request. Ultimately, all property acquisitions are considered capital projects and must be authorized as such, regardless of whether any costs were to be incurred.

Note that appropriations to support all lease payments are included in the operating section of the Appropriation Act.

Operating Lease Definition

A lease is generally considered an “operating lease,” and accounted for as an operating expense if it is for a short period of time (e.g., one year) and there is no transfer of ownership involving any portion of the property to the lessee (the lessor retains all property interests).

Capital Lease Definition

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 is 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).

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.

➤ Six-Year Capital Outlay Plan

The Governor is required by statute to submit annually to the General Assembly legislation listing the capital projects that 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 legislation 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

State agencies and institutions of higher education are no longer required to submit maintenance reserve projects to DPB for approval prior to using the appropriations provided to them for maintenance reserve. Separate capital budget requests should be submitted, though, if an agency or institution has a significantly large maintenance reserve-type project for a facility, similar maintenance reserve-type projects for multiple facilities (umbrella project), or multiple but different maintenance reserve-type projects for one or multiple facilities.

Appropriation provided for maintenance reserve through central capital outlay is still restricted for use on projects that meet the definition of maintenance reserve as noted below. In addition, agencies or institutions are required to report annually on maintenance reserve expenditures.

Definition of Maintenance Reserve

Maintenance reserve funding shall not be used 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 maintenance reserve project cost).

A maintenance reserve project is a major repair or replacement to plant, property, or equipment that is intended to extend its useful life. Any project, other than a roof replacement, should cost between \$25,000 and \$2.0 million. A roof replacement project may cost up to \$4.0 million. However, a project costing under \$25,000 or over the \$2.0 or \$4.0 million limits that meets the definition of maintenance reserve may be granted an exemption from these thresholds, if authorized by DPB. Contact your DPB analyst with requests for authority to proceed on projects costing under \$25,000 or over the relevant maximum limit.

Projects meeting one or more of the following criteria qualify for maintenance reserve:

- 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; and/or,
- Work related to handicapped access, energy conservation, building and safety code compliance, safety and security, lead paint abatement, or asbestos correction.

Roof repair and replacement should continue to be the top priority for maintenance reserve funding, consistent with the requirements of the Appropriation Act. Handicapped access and life/safety/security projects should also be high priorities for agencies.

The use of maintenance reserve funding for a qualified project to support or supplement a construction, renovation, or repair capital project, is prohibited without DPB approval. Any requests for such approval should be made to your DPB analyst. In addition, the use of state-supported maintenance reserve funding for an auxiliary enterprise project is prohibited unless otherwise indicated by Appropriation Act language.

Projects meeting one or more of the following criteria do **not qualify** as maintenance reserve:

- Expanding an agency's or building's capability or function through the installation of equipment where none currently exists;
- 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;
- Replacement or upgrading of software, unless the software is an integral component of the system that is also being replaced;
- General renovations for aesthetic purposes, which includes moving walls, doors, etc.; and
- Development of a master plan or system/facility assessment associated with identifying maintenance reserve projects.

Contact your DPB analyst concerning any questions on whether a proposed project fits the criteria for maintenance reserve funding.

Data Used to Determine Maintenance Reserve Funding

The Department of General Services has been working with agencies and institutions to gather facility and property data through its M-R FIX application. The data collected will be used to help determine the distribution of maintenance reserve funding provided to each agency and institution. Given this, it is vital that agencies ensure that requested data has been submitted in M-R FIX.

More information about M-R FIX can be found at the following link:

<https://dgs.virginia.gov/engineering-and-buildings/budget-development/m-r-fix/>

Maintenance Reserve Reporting

Each agency and institution is required annually to submit a detailed report on its expenditure of maintenance reserve funds in the previous fiscal year. In addition, each agency's head or chief fiscal or administrative officer is required to certify that all maintenance reserve expenditures were made in compliance with these instructions and that any exceptions were appropriately authorized. The certification also shall include assurance that all needed roof repair and replacement projects have been completed or were underway, consistent with Appropriation Act requirements. If an agency or institution uses maintenance reserve funds for projects that do not meet the criteria set out in these instructions, that agency could be required, in the future, to submit proposed maintenance reserve projects to DPB in advance for approval.

Information associated with the requirements of the annual maintenance reserve report will be provided in a separate set of instructions later this year.

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 \$3.0 million;
- Improvements, renovations, repairs, replacement, maintenance, or combination projects for a single building with a total project cost exceeding \$3.0 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 determine the project type.

Capital outlay projects do not include projects that have been included in the Commonwealth Transportation Board's Six-Year Improvement Program (§2.2-1515, Code of Virginia).

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 the building 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 preparation 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 \$3.0 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 \$3.0 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 \$3.0 million or greater, it is subject to the capital project proposal process. If the cost is less than \$3.0 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

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 from the Art & Architecture Review Board and the Department of Historic Resources. The DGS Construction and Professional Services Manual (CPSM) 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), with financing arranged by the

Department of the Treasury. The Department of General Services has developed statewide contracts for use with ESCO projects. 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 \$3.0 million, it shall be subject to the capital budgeting process. However, if the projected 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 \$7.0 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 Capital Outlay (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. For information about ESCO contracts, contact DGS, Division of Engineering and Buildings.

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 \$3.0 million and funded in the agency's operating budget should be reported to DPB when the project is being 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. 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 is one that is to be financed solely by nongeneral fund appropriations and it provides authorization for unanticipated property acquisitions, a series of improvements to existing facilities or structures, or initial planning for projects. 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 requested separately in the capital budgeting process. The total budget for each task funded under a blanket project should not exceed \$3.0 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 are likely to be funded in phases. These phases are defined and described below.

Also note that the “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.

“Preplanning” means a process meant to obtain a more detailed definition and cost estimate of a project. It may include the following elements, as appropriate:

- Statement of program definition including functional space requirements, estimates of gross and net square footage, and functional adjacency requirements;
- 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;
- Site analysis, including options considered and, for the site chosen, any specific issues related to topography, utilities, or environment;
- Presentation, including site plan, conceptual floor plans and elevations, and conceptual exterior;
- Identification of any Uniform Statewide Building Code compliance or permit requirements unique to the project; or
- 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 affect overall project cost.

Preplanning can also include condition assessment of systems or infrastructure elements such as roofs, plumbing, or electrical to determine the extent of repair or replacement work that needs to be done.

“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.

“FF&E” stands for “furniture, fixtures and equipment” and means furnishings and movable equipment needed for the facility to be functional.

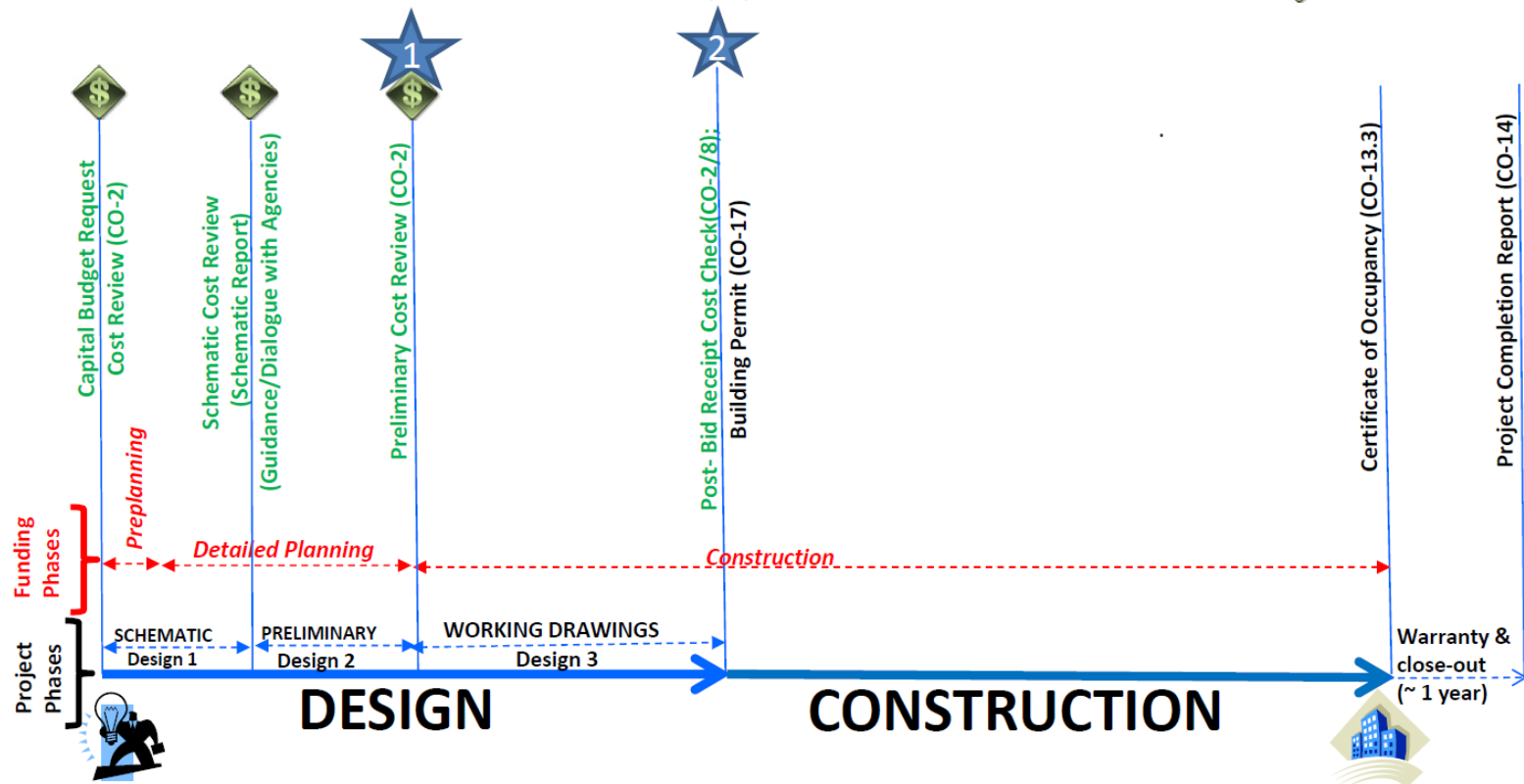
➤ **Appendix C: Pool Project Process**

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. There are two types of project pools: 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 percent design). Construction pools provide funds for execution of the entire project including design and construction/renovation. Funding for FF&E (furniture, fixtures, and equipment) is typically provided separately after a project is authorized for construction.

As a general rule, and as depicted in the figure on the next page, the Division of Engineering and Buildings (DEB) 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 percent design); this review provides the agency with a cost target for the project’s construction and soft costs. DEB encourages discussion and dialogue at this schematic cost review; it provides a key opportunity to attempt to reconcile any differences between agencies’ estimates and DEB estimates. The project is reviewed again at the completion of the detailed planning phase (i.e., the completion of preliminary design, or ~40 percent 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 ensure that agencies have adequate funds to execute the project.

The Pool Process

Phases, Critical Milestones (★) and Detailed Cost Reviews (💰)



★1 This detailed cost review ensures the project is “right-sized” and the funding is appropriate to complete the design and construct the facility. This establishes the basis for the application of the “105% rule.” This is the most critical “GO” for an agency in the pool process as it typically allows them to “proceed with execution.”

★2 Cost check ensures bids are within authorized funding; based upon bid prices, either maintain current project funding (typically the case), reduce project funding if exceptionally low bids received, or increase project funding via an agency appeal up to 105% of that amount determined at milestone 1. If bids result in project(pool \$) > 105% as defined at milestone 1, then agency must either reduce scope, provide more agency funding, or request additional \$ from GA.