

Instructions for Developing the Six-Year Capital Budget Request for 2004-2010

APPENDICES

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Appendix A

Definitions and Criteria

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

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

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

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

Operating or Capital Budget?

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

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

Project Categories

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

Consult with your DPB analyst if you: 1) identify a project that does not meet any of the definitions or criteria; 2) propose a series of identical projects (such as towers, ramps, or sheds) that meet one or more of the criteria other than dollar thresholds; or 3) are not sure if a project should be considered an operating

budget item or a capital budget item, such as equipment. Your analyst will advise you on the appropriate means of requesting the project (for example, operating budget, maintenance reserve, capital budget, or umbrella project).

Acquisition

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

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

New Construction

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

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

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

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

Improvements

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

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

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

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

Equipment

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

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

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

Capital Projects Funded in the Operating Budget

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

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

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

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

Multi-Task Capital Projects

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

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

Maintenance Reserve

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

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

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

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

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

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

Note: Institutions of higher education should see guidelines in Item C-149 C., Chapter 899.

Umbrella Projects

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

Blanket Projects

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

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

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

Appendix B

Central Agency Responsibility for Lease Review

Role of the Department of General Services

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

In addition, § 4-5.09a of Chapter 899 specifies that: “Agencies shall not acquire real property by lease until the agency certifies to the Director of the Department of General Services that (i) funds are available within the agency’s appropriations made by this act for the cost of the lease and (ii) the volume of leased space conforms with the space planning procedures for leased facilities developed by the Department of General Services and approved by the Governor. The Governor may waive these requirements if, in his opinion, such action may avoid an increase in cost or otherwise result in a measurable benefit to the state and funds are available within the appropriations made by this act, without adverse impact on other projects or programs, or from unappropriated nongeneral fund revenues or balances. Any such waivers approved by the Governor shall be reported in accordance with § 4-8.00, Reporting Requirements.”

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

Role of the Department of Accounts

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

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

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

- The lease contains a bargain purchase option;
- The lease term is equal to 75 percent or more of the remaining estimated economic life of the leased property, unless the beginning of the lease term falls within the last 25 percent of the total economic life of the leased property; and/or
- The present value, at the beginning of the lease term, of the minimum lease payments (reduced for executor costs and profit thereon) equals or exceeds 90 percent of the fair value of the leased property to the lessor, at the inception of the lease, less any related investment tax credit retained by the lessor and expected to be realized by him. This criterion does not apply if the beginning of the lease term falls within the last 25 percent of the total economic life of the leased property.”

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

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

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

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

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

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

Role of the Treasury Board

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

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

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

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

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

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

Additional requirements for telecommunication and information technology equipment

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

Role of the Department of Planning and Budget

The *Instructions for Developing the Six-Year Capital Budget Request for 1998-2004* required agencies and institutions, for the first time, to submit a capital outlay request for any proposed capital lease. Agencies were advised that, beginning with the 1998-2000 biennium, all capital lease agreements

must be submitted as capital requests. Agencies would no longer be able to enter into capital leases during budget execution without prior approval to initiate a capital project.

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

Role of the Secretary of Finance and the Secretary of Administration

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

Appendix C

Taxonomy of Functions

(For institutions of higher education only)

This taxonomy is adapted from the *Financial Accounting and Reporting Manual for Higher Education* and the earlier *Management Reporting and Accounting for Colleges*, Second Edition (1988) by the National Association of College and University Business Officers (NACUBO). While the taxonomy was originally designed for financial reporting, it may be readily adapted to facilities reporting through limited modifications. For example, the category of Scholarships and Fellowships would not be used as a function in a facility's inventory. Categories for Independent Operations and Hospitals have been added to the taxonomy because they are necessary categories for facilities reporting. The following represents a brief synopsis of a possible adaptation of this taxonomy.

Definitions of Functional Categories

1.0 Instruction. This category includes all activities that are part of an institution's instruction program. Credit and noncredit courses for academic, vocational, and technical instruction for remedial and tutorial instruction, and for regular, special, and extension sessions should be included.

1.1 General Academic Instruction: Includes formally organized and/or separate instructional activities that are: 1) carried out during the academic year, 2) associated with academic disciplines, and 3) offered for credit as part of a formal post secondary education degree or certificate program.

1.2 Vocational/Technical Instruction: Formally organized and/or separate instructional activities that are 1) carried out during the academic year, 2) usually associated with academic disciplines, and 3) offered for credit as part of a formal post secondary education degree or certificate.

1.3 Special Session Instruction: Includes formally organized and/or separately budgeted instructional activities (offered either for credit or not for credit) that are carried out during a summer session, interim session, or other period not common with the institution's regular team.

1.4 Community Education: Includes formally organized and/or separate instructional activities that do not generally result in credit toward any formal post secondary degree or certificate.

1.5 Preparatory/Remedial Instruction: Includes formally organized and/or separate instructional activities that give students the basic knowledge and skills required by the institution before they can undertake formal academic coursework leading to a post secondary degree or certificate.

2.0 Research. This category should include all activities specifically organized to produce research outcomes, whether commissioned by an agency external to the institution or separately by an organizational unit within the institution.

2.1 Institutions and Research Centers

2.2 Individual and Project Research

3.0 Public Service. This category should include activities that are established primarily to provide non-instructional services beneficial to individuals and groups external to the institution.

3.1 Community Services

3.2 Cooperative Extension Services

3.3 Public Broadcasting Services

4.0 Academic Support. This category should include support services for the institution's primary missions -- instruction, research, and public service. Libraries, museums, academic computing, and course and curriculum development are examples of academic support.

4.1 Libraries

4.2 Museums and Galleries

4.3 Educational Media Services

4.4 Academic Computing Services

4.5 Ancillary Support

4.6 Academic Administration

4.7 Academic Personnel Development

4.8 Course and Curriculum Development

5.0 Student Services. This category should include offices of admissions and registrar and those activities whose primary purpose is to contribute to the student's emotional and physical well being and to his or her intellectual, cultural, and social development outside the context of the formal instruction program.

5.1 Student Services Administration

- 5.2 *Social and Cultural Development*
- 5.3 *Counseling and Career Guidance*
- 5.4 *Financial Aid Administration*
- 5.5 *Student Admissions*
- 5.6 *Student Records*
- 5.7 *Student Health Services*

6.0 Institutional Support. This category should include 1) central executive-level activities concerned with management and long-range planning of the entire institution, such as the governing board, planning and programming, and legal services; 2) fiscal operations, including the investment office; 3) administrative data processing; 4) space management; 5) employee personnel and records; 6) logistical activities that provide procurement, storerooms, safety, security, printing, and transportation services to the institution; 7) support services to faculty and staff that are not operated as auxiliary enterprises; and 8) activities concerned with community and alumni relations, including development and fund raising.

- 6.1 *Executive Management*
- 6.2 *Fiscal Operations*
- 6.3 *General Administrative Logistical Services*
- 6.4 *Administrative Computing Services*
- 6.5 *Public Relations/Development*

7.0 Operation and Maintenance of Plant. This category should include the operation and maintenance of physical plants for all institutional activities, including auxiliary enterprises and independent operations.

- 7.1 *Physical Plant Administration*
- 7.2 *Building Maintenance*
- 7.3 *Custodial Services*
- 7.4 *Utilities*
- 7.5 *Landscape and Grounds*

7.6 *Major Repairs and Renovations*

8.0 This category includes Scholarships and Fellowships but is not used in facilities.

9.0 Auxiliary Enterprises. An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods or services.

9.1 *Auxiliary Enterprises -- Student*

9.2 *Auxiliary Enterprises -- Faculty/Staff*

9.3 *Intercollegiate Athletics*

10.0 Independent Operations. This category includes those operations that are independent of, or unrelated to, but which may enhance the primary missions of the institution.

11.0 Hospitals. This category includes patient care operations of the hospital, including nursing and other professional services, general services, administrative services, fiscal services, and physical plant operations and institutional support.

Institutions of higher education should refer to the SCHEV web site for the Higher Education Fixed Asset Guidelines for Educational and General Programs, State Council of Higher Education in Virginia, July 2001. (I need to do a little more work on this)