WHERE DO BUILDINGS COME FROM??

TRANSFORMING PLANS INTO RESULTS

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Planning, Planning, Planning

Capital Outlays are large expenses and require extended vision and planning to prepare the resources

First, What is a Capital Project?

- Asset improvements with costs => $1M
  - This includes all hard and soft costs, not just construction.
- New construction => 5,000 GSF
  - This is the total “covered” SF, not just the “program” SF.
- Leases that meet the GAAP capital lease tests
  - These are generally more than a few years long, consume the economic life of the facility, and/or include ownership transfers.
- Land acquisitions of any cost or size
  - This includes gifts or transfers to the University from the VTF.
- Major equipment acquisitions that are externally financed

Transforming Planning into Results
Major Planning Steps:

1) University Strategic Plan
2) University Campus Master Plan
3) University Six-Year Capital Plan
4) State Six-Year Capital Plan

Transforming Planning into Results
Key Actions:

- Developing a University Six-Year Capital Plan by identifying key elements of the Strategic Plan and Master Plan for implementation
- Identifying appropriate financial resources
- Developing strategies to obtain those resources over a finite period of time
- Obtaining approval to implement projects

Structure of University's Six-Year Capital Outlay Plan

- Presents a comprehensive listing of identified needs that passed the university's review and approval process
- Covers six years with projects in priority order for use of funds
- Includes both General Fund and nongeneral fund projects
- Approved by the Board of Visitors
- Provides information needed to prepare the submission for the state's Six-Year Capital Outlay Plan

Current University Capital Outlay Plan

- 65 Projects
- Total costs of $2 Billion
- Calls for $1.2B State Support
- Calls for $0.8B nongeneral fund revenues
- 47 Academic projects with $1.1B GF and $0.37B NGF
- 6 Campus Infrastructure projects with $98M GF and $21M NGF
- 12 Auxiliary enterprise projects with $0.55B NGF
- Calls for $0.437B in debt to carry NGF cash flows
- 1.4M GSF new or renovated space

Current University Capital Outlay Plan

(Continued)

Typical Costs of Space:

- Science, Technology, Engineering, and Life Science space is $700 to $1,000 per GSF
- Residential space is $110,000 per bed
- Classroom space is $500 per GSF
- Administrative space is $250 to $300 per GSF

Typical Size of a Building: ???????

What is the Commonwealth's Six-Year Capital Outlay Plan?

- State's tool for long range Capital Outlay planning
- Identifies top priorities for the use of state funds for all state agencies
- Updated biennially and based on institution plans
- Consists of projects that are expected to be funded during the six-year period
- The Governor submits a bill establishing a State Six-Year Capital Outlay Plan which is approved (as amended) by the General Assembly
  - Includes new capital projects to be funded entirely or partially from General Fund resources
  - Projects are sorted by tiers – total cost of each project in the tier falls within a minimum and maximum project cost assigned to the tier

Positioning for State Funding

University Actions to Position Projects for State Funding

- University representatives work with Executives and Legislative Branch representation, including members of the Six-Year Capital Outlay Advisory Committee, about university projects
- The President meets with members of the legislature to discuss priorities
- **Goals:**
  - **Ensure that the state recognizes and addresses the university's highest priority projects**
  - **Ensure the university receives historical share of funding from the state**

Successfully Positioning Virginia Tech Projects

- University considerations to successfully position projects include:
  - The current political environment
  - Strive to match university priorities with state priorities
  - Present a diverse list of projects to ensure some projects match current state goals
    - New construction
    - Renovations
    - Large vs. medium vs. small projects

Approving and Implementing Projects

Authority and Approval to Initiate a Project: Two Paths

- Board of Visitors
  - Authority to approve a project supported entirely with nongeneral fund revenues, including stand-alone debt
  - Projects may be requested, approved, and begin implementation at a regularly scheduled Board meeting

- General Assembly
  - Authority to approve a project with General Fund support
  - Authority to approve participation in the state pooled bond program (*best cost of capital)*
  - Lengthy review, approval, and implementation process

State Project Approval Process

- The Governor's executive budget bill identifies specific projects from the Six-Year Plan for implementation
  - Capital normally proposed and approved in even numbered budget sessions
- The General Assembly makes amendments as necessary to the list of projects for implementation
  - Projects normally effective starting July 1 of the even year

State Implementation Process

Allocation Phases of Funding for Approved Projects

- Controlled process with distinct decision phases
  - 1st Stage: Pre-planning *(<$250K)*
  - 2nd Stage: Detail Planning *(to ensure scope and costs are within original budget proposal) (4% of total budget)*
  - 3rd Stage: Construction Funding *(pending sufficient debt capacity)*
  - 4th Stage: Equipment Funding
- Impact of this process is to:
  - Control the pace of project approval to achieve a more stable process
  - Control the rate of expenditures to roughly meet the accepted state expenditure guidelines

Key Finite Resources

General Fund Dollars and Debt Capacity

State Funding Guidelines

- Pay as you go – utilized when General Fund resources are adequate *(not so much recently)*
- Debt issues – utilized when General Fund resources are not sufficient
  - State has specific guidelines addressing annual debt limitations
  - Stated priority for specific types of capital projects
- State capital outlay -- debt allocation generally limited to $250-$350 million annually

Limitations on Debt Funding State Debt Capacity Issues

- Debt ratio guideline of 5 percent in support of its AAA bond rating
- State is currently debt-constrained, anticipates exceeding the maximum debt ratio of 5 percent by 2012-13
- The State Debt Capacity Advisory Committee is attempting to free up additional resources
  - Identifying revisions to the debt capacity model
  - Obtaining concurrence of bond rating agencies
  - Allocating new debt capacity in priority order to approved capital projects

Virginia Tech Approved Projects Pending State Debt Financing

- Chiller Plant Expansion (SW Campus)
- Davidson Hall Renovation – Phase I
- Human and Agricultural Bioscience Building – Phase I
- Sciences Building Laboratory – Phase I
- Signature Engineering Building

Limitations on Debt Funding University Debt Capacity Issues

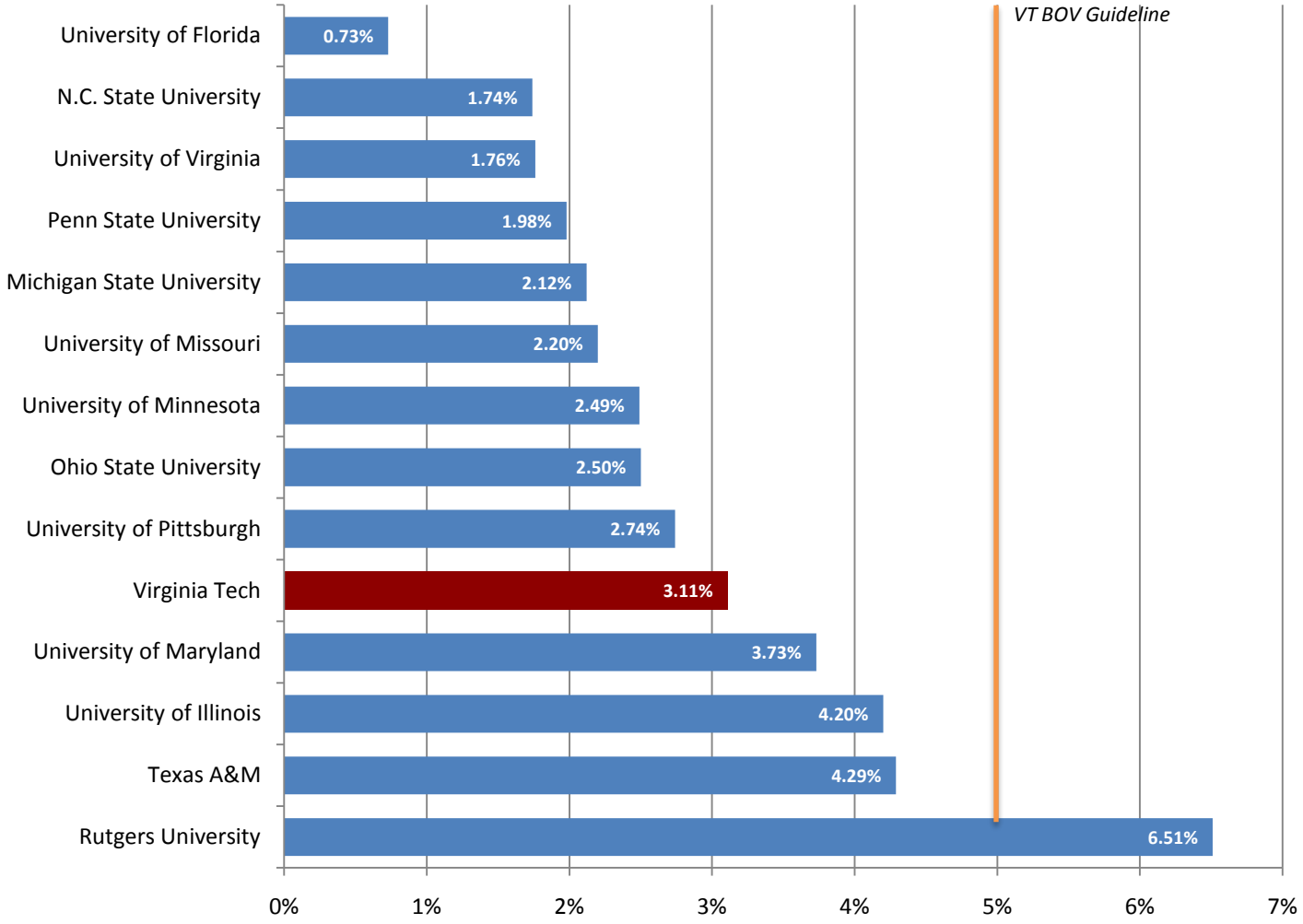
- Board approved debt ratio guideline of 5 percent in support of maintaining at least a AA- bond rating
- University debt ratio as of June 30, 2010 was 3.2 percent
- Projected ratio, including approved capital projects, anticipates reaching 5.06 percent in 2012-13
- Debt capacity, as influenced by projected rate of expenditure growth, is limited through 2016

Limitations on Debt Funding University Debt Capacity Issues

(continued)

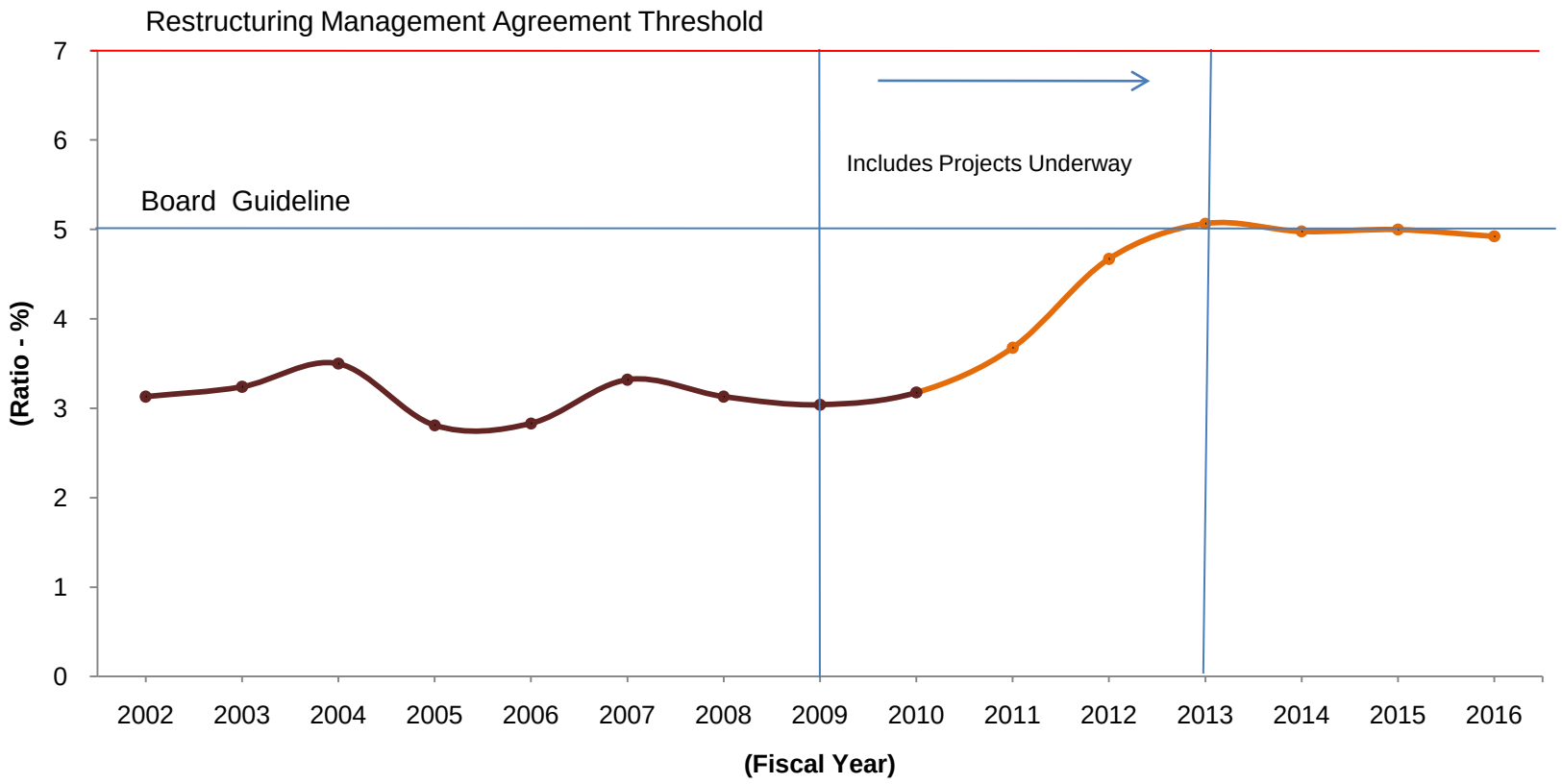
- University working to identify additional resources
  - Implemented revisions to the debt capacity model
  - Continue to obtain concurrence by bond rating agencies
  - Allocate new debt capacity in priority order to capital projects
  - Consider guidelines for allocation of debt capacity among project types – instruction, research, auxiliaries
  - Identification of additional cash sources for capital projects such as fundraising and overhead to extend debt capacity
  - Related corporations' capacity

Debt Ratio Benchmarking



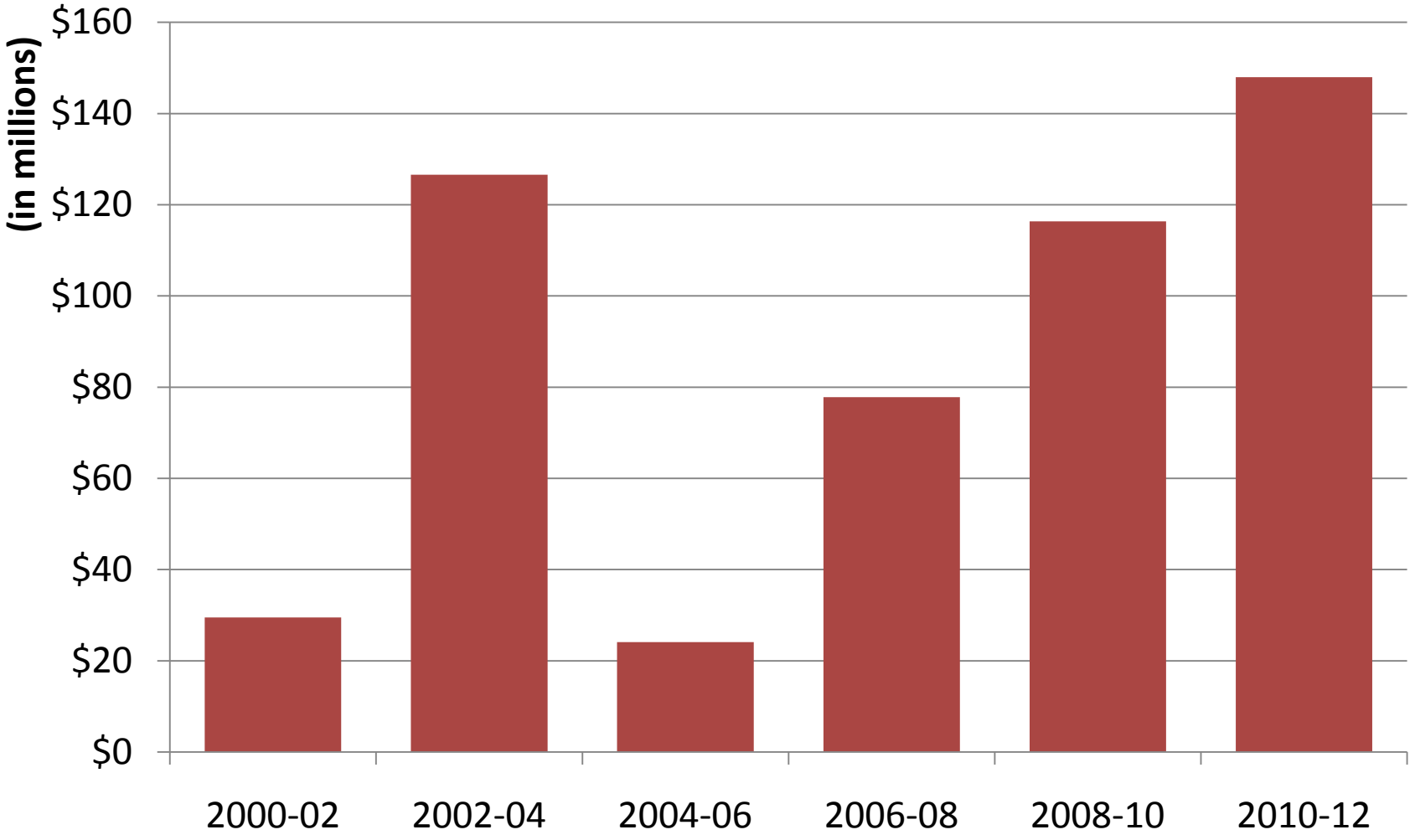
Source: Moody's Investors Service, October 21, 2010, 2009 Data.

University Debt Ratio Trend



Results Over the Past Decade

General Fund Support to Virginia Tech for Capital Funding for Biennia 2000-2012



Percentage of General Fund Support Allocated to Virginia Tech for Capital Funding for Biennia 2000-2012

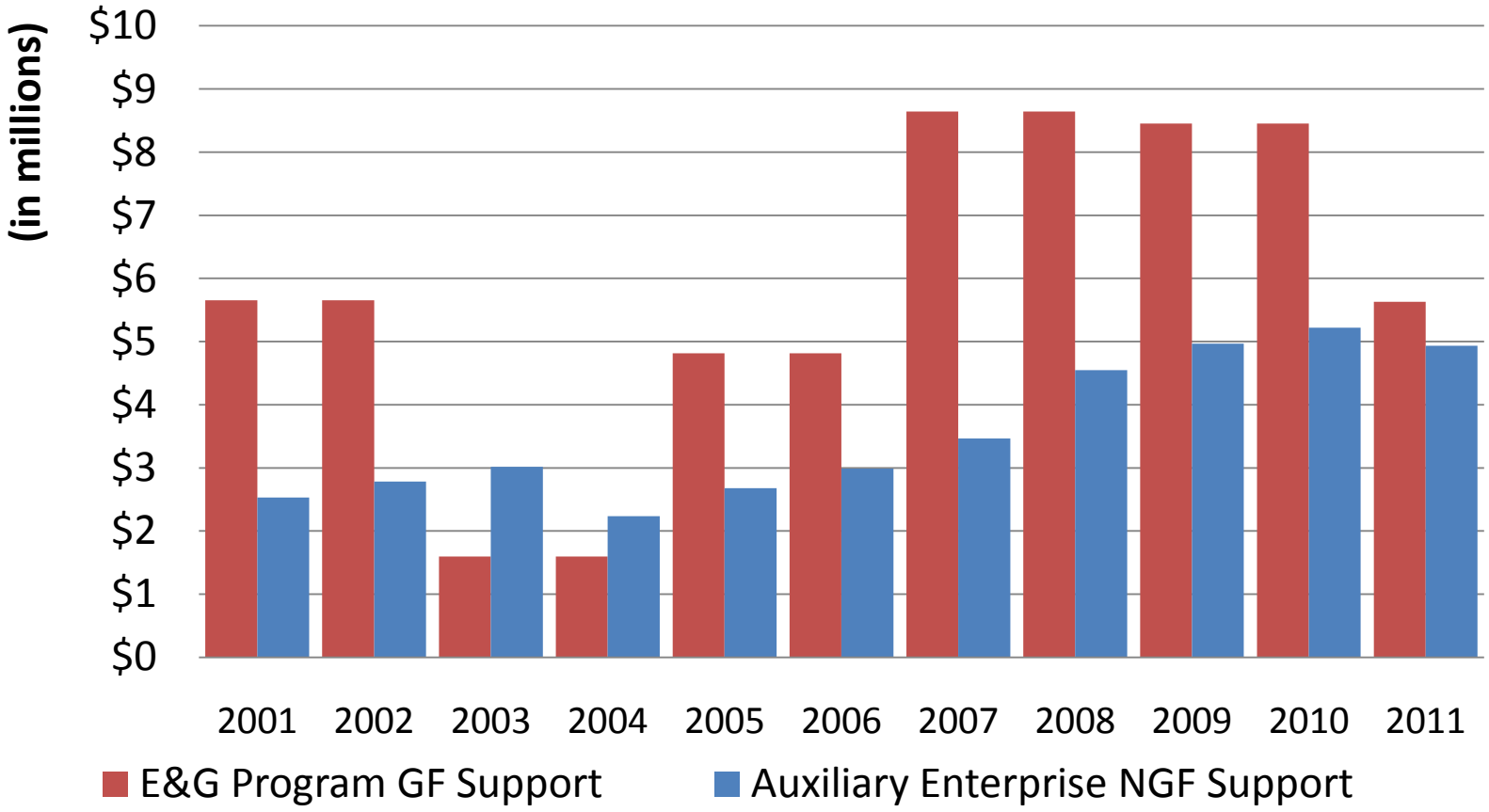
General Fund Support to Virginia Tech for Capital Funding for Biennia 2000-2012

(in millions)

Biennium	Virginia Tech	Total Higher Education	Percent of Total	Rank
2000-02	$ 29	$ 238	12%	4*
2002-04	127	1,044	12%	2*
2004-06	24	346	7%	4*
2006-08	78	895	9%	2*
2008-10	116	1,238	9%	2*
2010-12	148	1,090	14%	1
Total	**$ 522**	**$ 4,851**	**10.76%**	

* VCCS - #1
As of March 2011

Maintenance Reserve Funding for Fiscal Years 2001-2011



Virginia Tech has received the highest portion of state Maintenance Reserve funding for each year represented above

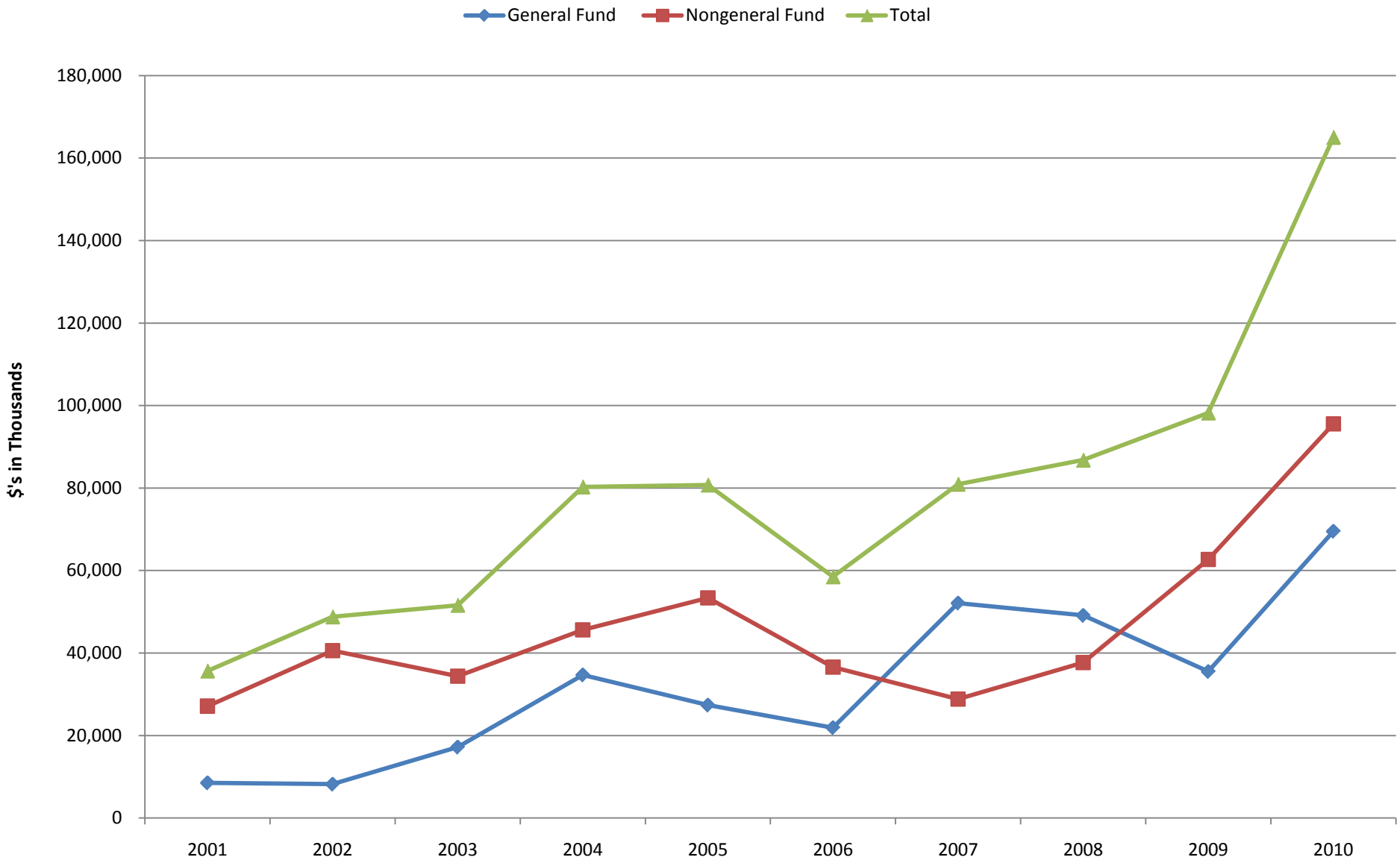
Maintenance Reserve Funding for Fiscal Years 2001-2011

(continued)

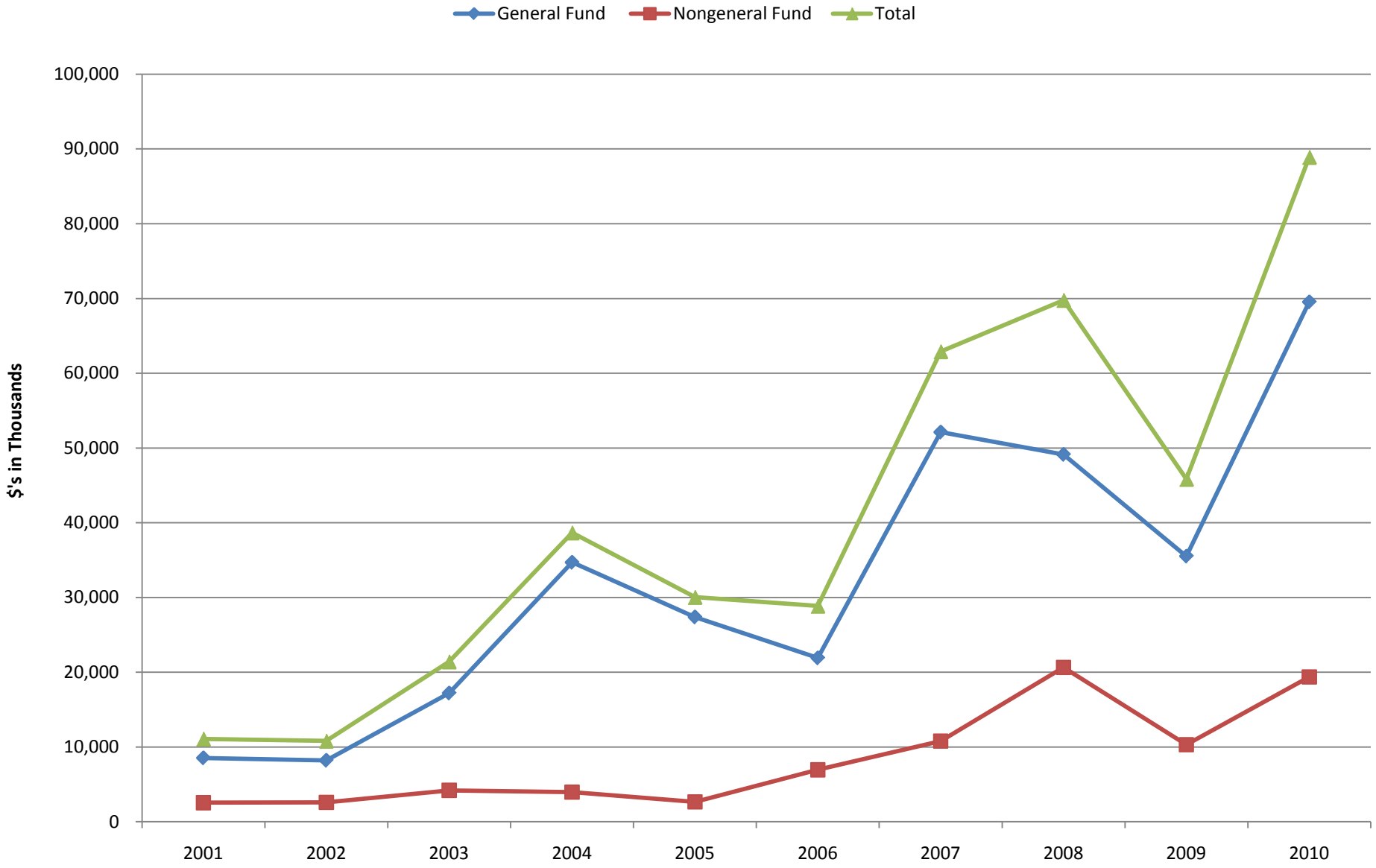
(in millions)

Fiscal Year	E&G Program GF Support	Auxiliary Enterprise NGF Support
2001	$ 5.66	$ 2.53
2002	5.66	2.79
2003	1.60	3.02
2004	1.60	2.24
2005	4.82	2.68
2006	4.82	2.99
2007	8.65	3.47
2008	8.65	4.55
2009	8.45	4.97
2010	8.45	5.22
2011	5.63	4.94
Total	**$ 63.96**	**$ 39.38**

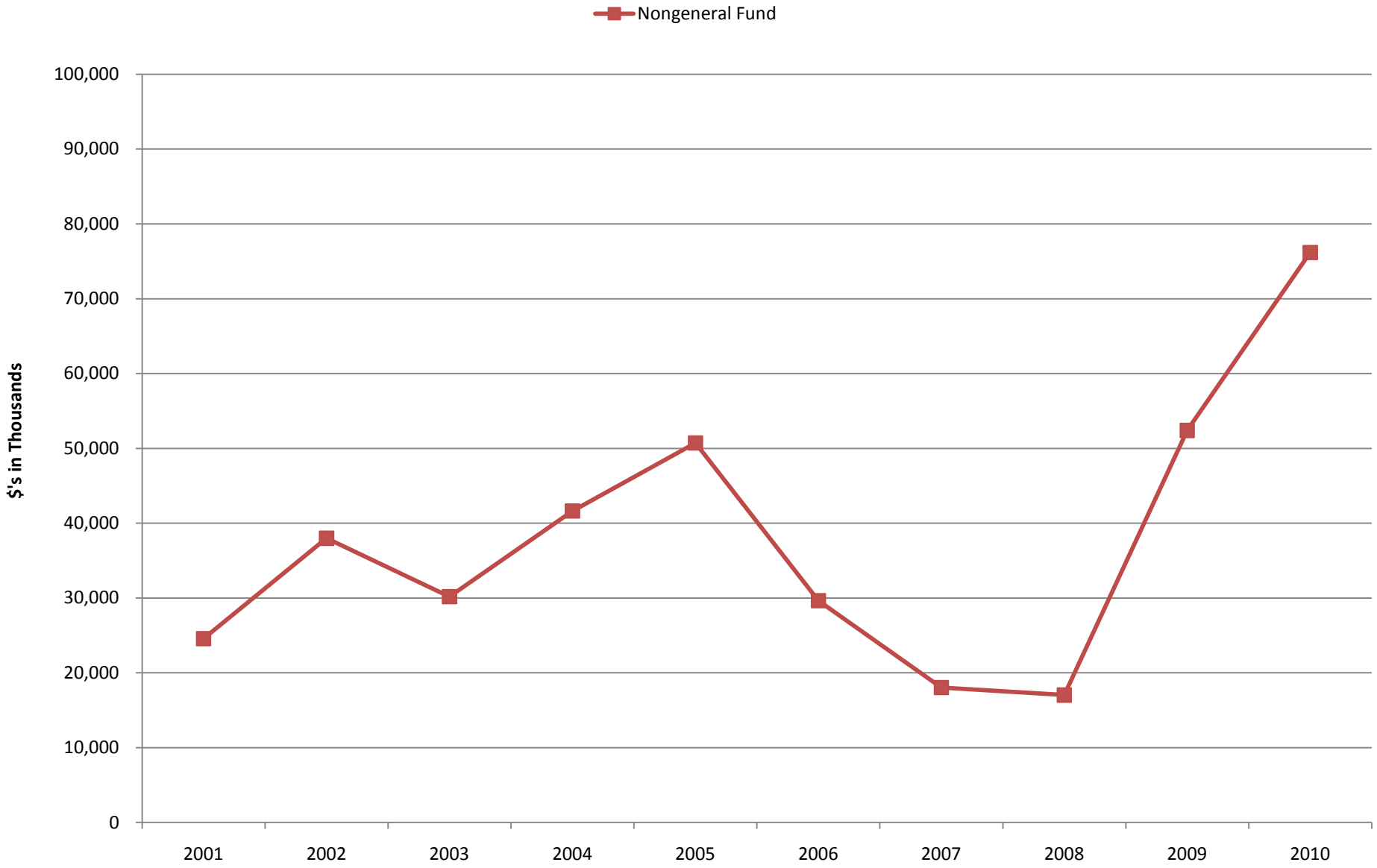
All Capital Projects
Trend of Expenditures by Fund Source for Fiscal Years 2001-2010



Projects with General Fund Support (E&G Projects)
Trend of Expenditures by Fund Source for Fiscal Years 2001-2010



Projects with 100 Percent Nongeneral Fund Support
Trend of Expenditures by Fund Source for Fiscal Years 2001-2010



Space Added 2000-2010

Owned Space	GSF
Total 2000	7,453,843
Total 2010	9,166,306
Space Added	1,712,463

Leased Space	GSF
Total 2000	442,056
Total 2010	912,653
Space Added	470,597

What can we do to maximize funding in the future?

What Can We Do to Maximize Capital Funding?

1. Continue to win the contest for resources in Richmond
2. Use a combination strategy for addressing space needs and deferred maintenance
   - Academic Space:
     - Build new research space
     - Renovate for instructional space
   - Auxiliary Space:
     - Increase maintenance reserve funds to focus on keeping new facilities in good shape
     - Use debt to renovate or construct replacement facilities for targeted buildings
     - Identify new funding to address program needs within existing facilities

What Can We Do to Maximize Capital Funding?

(continued)

3. Continue to look to private support and overhead resources to leverage projects
4. Preserve our debt rating
5. Add an upfront cash component to projects funded with nongeneral funds in order to extend the reach of our limited debt capacity
6. Consider strategies to control the cost of projects while maintaining the integrity of the campus' physical assets and meeting programming requirements