

ADVANCING CAPITAL OUTLAY

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Major Topics Today:

- 1) Commitment to long-range planning processes
- 2) Update on 2012 General Assembly
- 3) Results & Trends
- 4) Major projects underway & under consideration
- 5) Financial programs for capital outlay

University's Six-Year Capital Outlay Plan

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- Developed from the ground up, starting with senior managers
 - Presents a comprehensive listing of identified needs that passed the university's review and approval process
 - Projects ranked in priority order for use of funds
 - Updated every two years (an update starts this fall)
 - Approved by the Board of Visitors
 - Provides information to prepare the submission for the state's Six-Year Capital Outlay Plan

Current University Capital Outlay Plan

- 62 Projects
- Total costs of \$2.1 Billion
- Calls for \$1.3B State Support
- Calls for \$833M of nongeneral fund revenues
- 44 Academic projects with costs of \$1.58B
- 6 Campus Infrastructure projects with costs of \$134M
- 12 Auxiliary enterprise projects with costs of \$467M
- Calls for \$524M in debt to carry NGF cash flows
- 3.4M GSF new or renovated space

First Biennium of the Plan

University Projects

Classroom Building

Academic Buildings Renovation and Renewal

Translational Research and Medicine Laboratory

Chiller Plant Upgrades, Phase II

Computer Science and Engineering Building

Derring Hall Renovation, Phase I

Lane Hall Renewal and Expansion

Library Collections Facility

Randolph Hall Renewal

Robeson Hall Renovation and Expansion

Vivarium and Research Addition

Health and Safety Improvements

Southgate Renovation

Campus Road Package, Phase I

Veterinary Medicine Instruction Addition (Construction)

Propulsion Laboratory

Smart Pipe Facility

Virginia Bioinformatics Institute, Phase III (Construction)

Virginia Tech Transportation Institute – Research Expansion

Corps of Cadets Residential Facilities

South Recreation Field Replacement

English Field Improvements

Baseball Press Box and Restrooms Improvements

CE/AES Projects

Kentland Facilities Improvements, Phase I: Dairy Program

Animal Production Facility

State'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 capital plans
- Plan size is correlated to expected General Fund revenues during the six-year period
- The Governor submits a bill (Chapter 46) 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
 - This is now with the money committees

Positioning Virginia Tech Projects In the State Plan

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- University considerations to successfully position projects include:
 - Strive to match university priorities with state priorities
 - The current political environment
 - Present a diverse list of projects to ensure projects match current state goals
 - New construction
 - Renovations
 - Large vs. medium vs. small projects
 - Goal is to have a substantial overall project representation among higher education
 - Other institutions are engaged in the same positioning work

Virginia Tech in the State's Plan

- Nearly all of VT's first biennium projects are in current plan
- The university position is larger than other schools in the plan
- VT has projects in the key dollar bands and projects in the key categories
- This helps to justify funding need

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**

2012 General Assembly Update

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- **VT positioned well in the original budget**
- **Both Houses have recommended major changes to the original budget**
 - **Significant changes to the Maintenance Reserve program**
 - **Significant changes to the Central Planning program**
 - **Proposed limited construction funds for repair and infrastructure**
 - **A re-write of the Six-Year Capital Outlay Plan**
 - **VT remains well positioned in the proposed changes.....**
- **The level of changes mean the outcome is uncertain until the conference committee completes its work**

Growth Since 2000

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- **Projects completed: 52**
- **Dollars spent: \$909 million**
- **Space added: 1.8 million GSF**
- **Space Renovated: 623,000 GSF**
- **Space leased: 429,000 GSF**

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

(in millions)

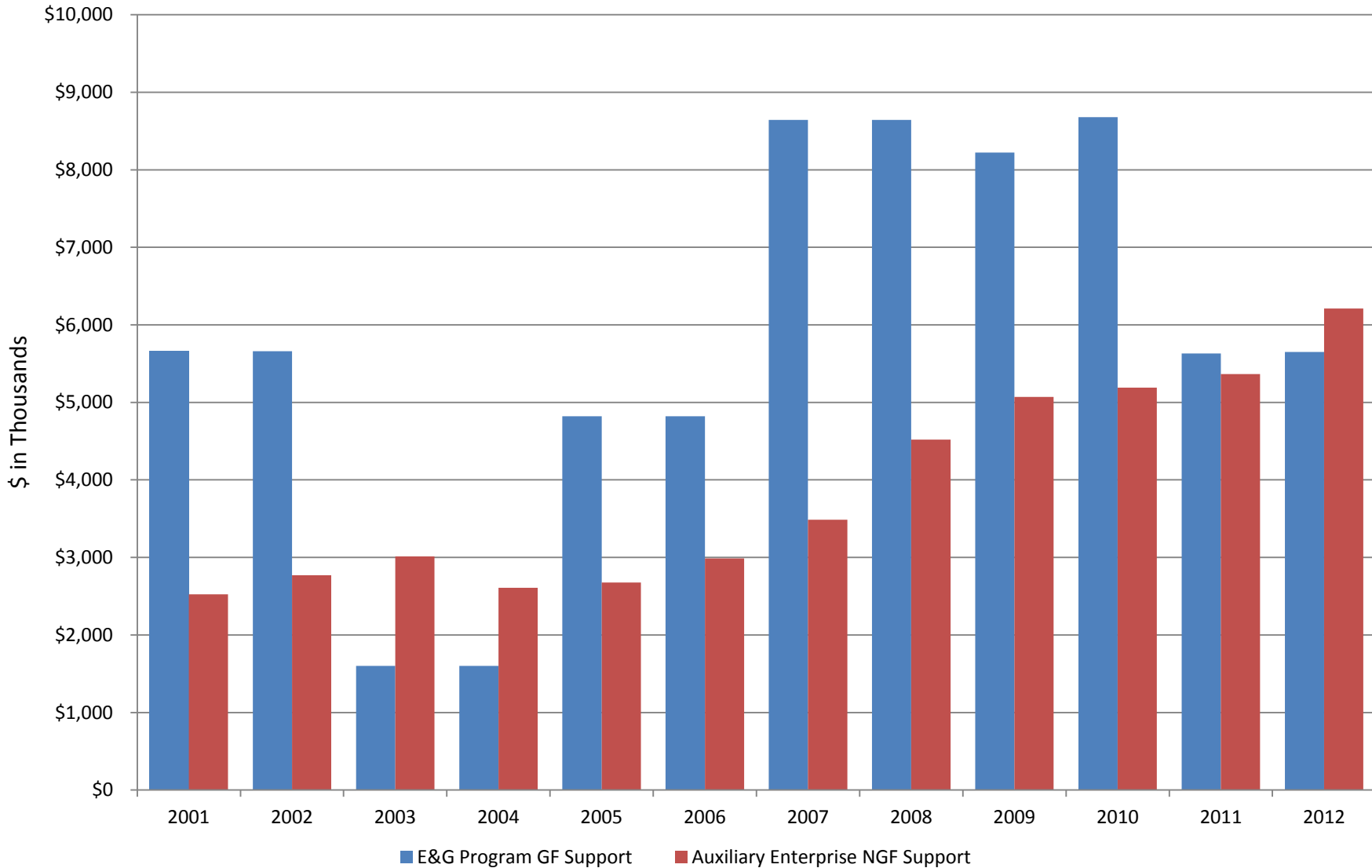
Biennium	Virginia Tech	Total Higher Education	Percent of Total	Rank
2000-02	\$ 29	\$ 238	12%	4*
2002-04	127	1,044	12%	2*
2004-06	24	346	7%	4*
2006-08	78	895	9%	2*
2008-10	116	1,238	9%	2*
2010-12	148	1,090	14%	1
Total	\$ 522	\$ 4,851	10.76%	

* VCCS - #1

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Maintenance Reserve Funding for Fiscal Years 2001-2012

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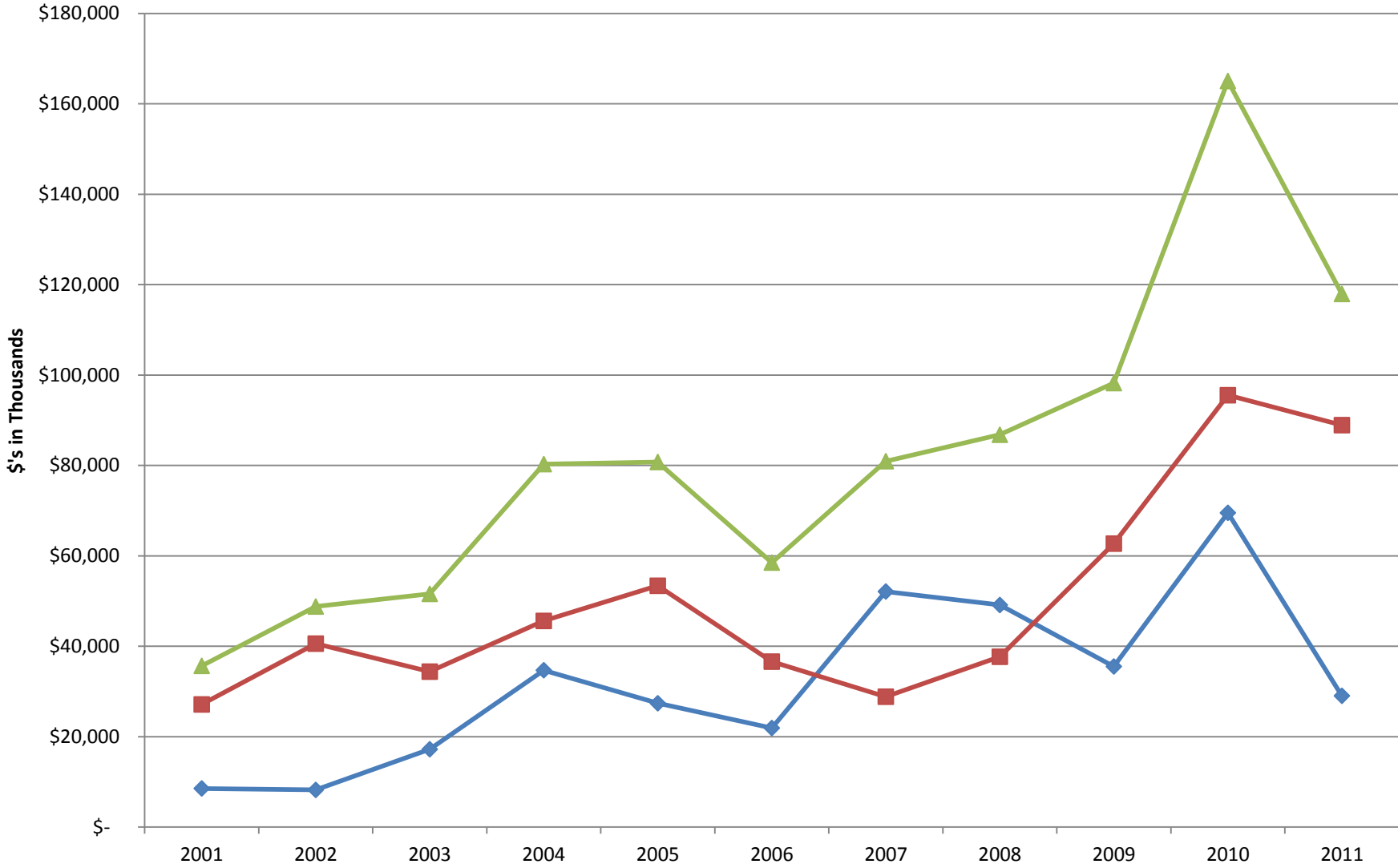
Virginia Tech has received the highest portion of state Maintenance Reserve funding for each year represented above

All Capital Projects

Trend of Expenditures by Fund Source for Fiscal Years 2001-2011

General Fund Nongeneral Fund Total

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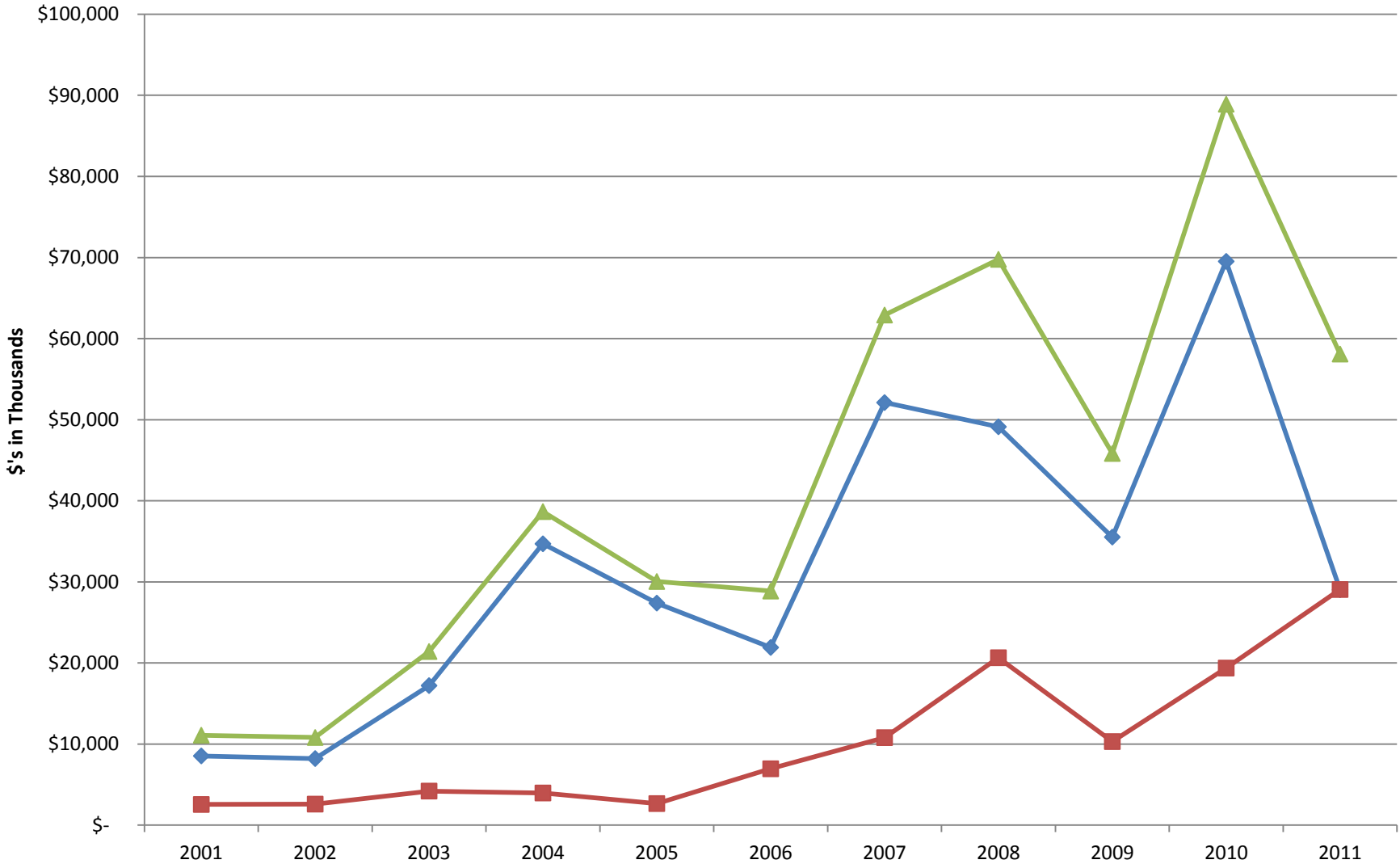


Projects with General Fund Support (E&G Projects)

Trend of Expenditures by Fund Source for Fiscal Years 2001-2011

◆ General Fund ■ Nongeneral Fund ▲ Total

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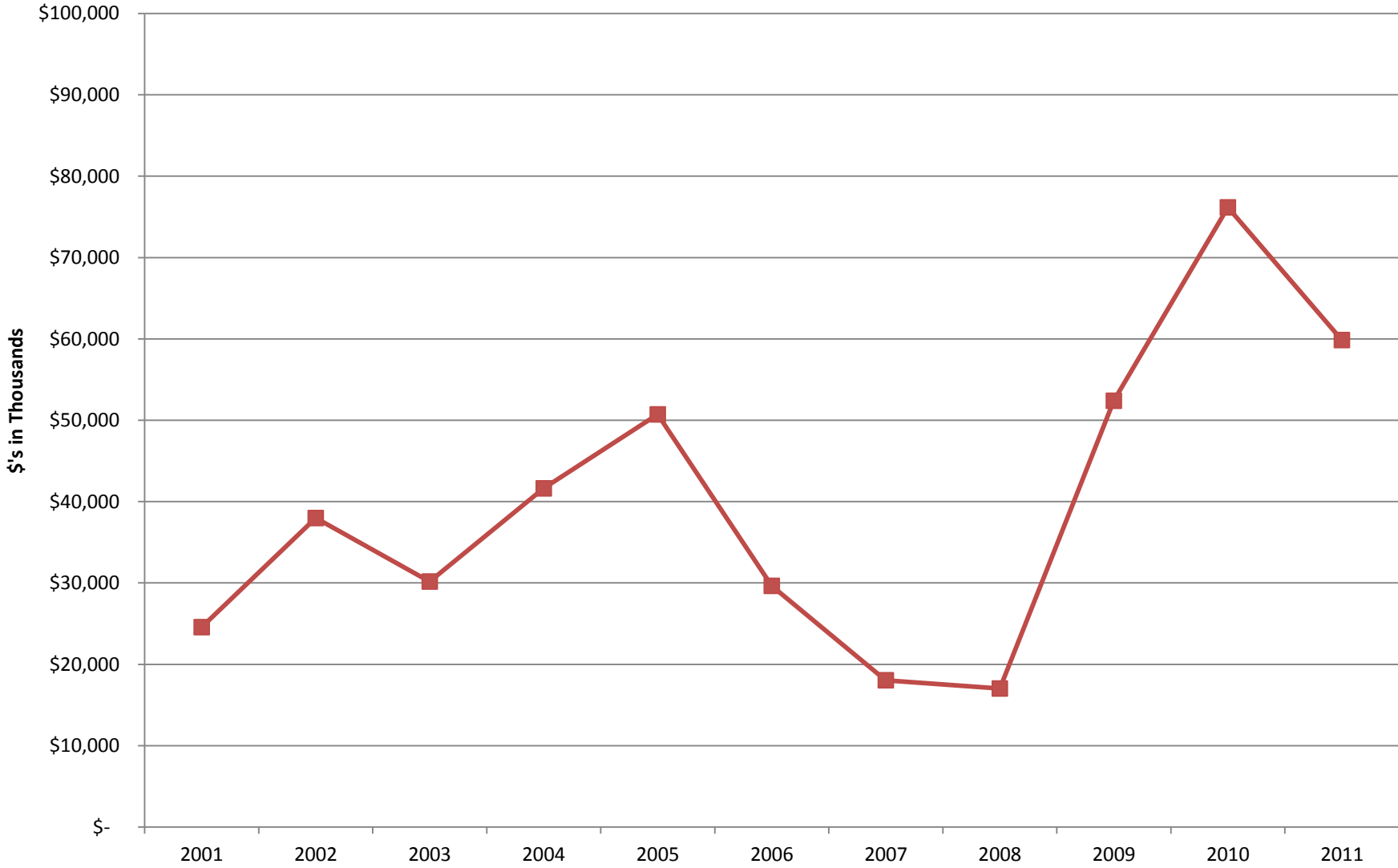


Projects with 100 Percent Nongeneral Fund Support

Trend of Expenditures by Fund Source for Fiscal Years 2001-2011

—■ Nongeneral Fund

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Major Projects Funded and Underway

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- Academic and Student Affairs Building
 - Ambler Johnston Renovation
 - Chiller Plant Expansion (SW Campus)
 - CVM Instruction Building
 - Davidson Hall Renovation – Phase I
 - Human and Agricultural Bioscience Building – Phase I
 - McComas Hall Wall Repair
 - Performing Arts Center
 - Signature Engineering Building
 - Turner Street Project
 - Unified Communications System and Network Improvements
 - VTCRI Third Floor Laboratory Upfits (Roanoke)

Major Projects Coming Forward

- Upper Quad Residence Hall Renewal
- Propulsion Laboratory
- Indoor Field House for Athletics
- External projects that impact Virginia Tech
 - 460 Interchange project (VDOT)
 - Multi-Modal Facility (TOB)
 - Runway Extension (FAA)

Financial Programs

General Fund Dollars

Private Gifts

Overhead

Auxiliary Enterprise Revenues

University Debt Capacity

General Fund

- For projects listed in the state capital plan
- 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, 5 percent ratio in support of its AAA bond rating
 - Stated priority for specific types of capital projects
- State capital outlay -- debt allocation generally limited to \$250-\$350 million annually, based on long-range projections
- VT obtained about \$520M since 2000

Private Gifts

- May support all types of capital projects
- Can be a game changer for VT
- Project must be on university capital plan and approved in a Campaign by the VP for Development
- Typical pledge raising period is five to seven years
- Typical pledge payout is five to seven years
- Requires long-term commitment to professional fund raising effort
- Normal capture range is \$3 to \$15 million per project
- \$69 million expended on capital outlay since 2000

Overhead Revenues

- Come from the distribution of indirect cost recoveries from grants and contracts
- Use should be limited to support research program space
- Two central pools, college pools, and department pools
- The central pools have supported significant construction over the past 12 years
 - \$62 million expended since 2000

Auxiliary Enterprise Revenues

- Auxiliaries are self-supporting operations and may not be subsidized by E&G budget
- Revenues for capital projects are derived from their rates and fees, which are finite within the overall price of attendance
- Requires commitment to long-term planning between the units and the Budget Office
- Requires significant consideration against program operating needs and aspirations
- The revenues have normally serviced Auxiliary debt and Maintenance Reserve for the past 20 years.
 - \$473 million expended on projects
 - \$49 million expended on Maintenance Reserve

University Debt Capacity

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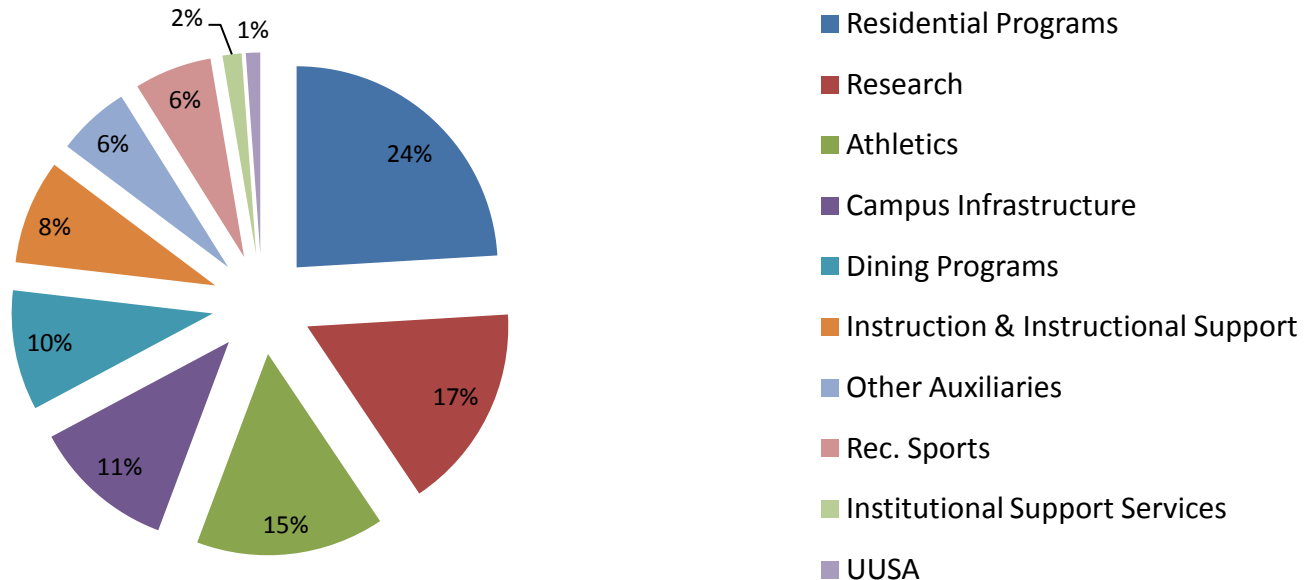
- Because we have strong cash flows, debt is a critical financial tool to support the large costs of projects
- Board approved debt ratio guideline of 5 percent in support of maintaining at least a AA- bond rating
- University debt ratio as of June 30, 2011 was 3.44 percent
- Projected ratio, including approved capital projects, anticipates reaching 4.99 percent in FY2015
- Debt capacity, as influenced by projected rate of expenditure growth, is limited through FY2016

University Debt Capacity

(continued)

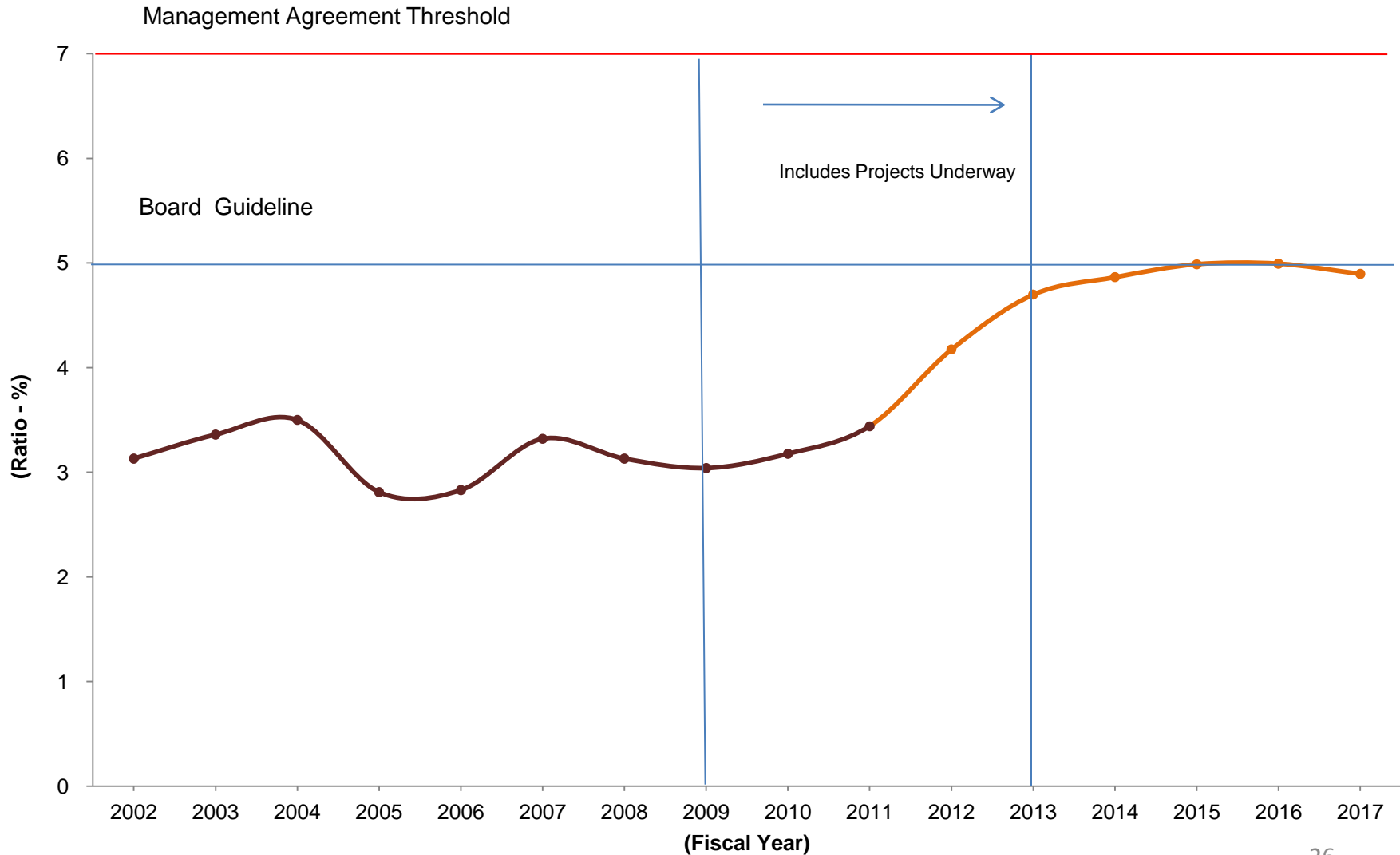
- Current outstanding principle:
 - \$444 million
- Current annual debt service:
 - \$36 million

Allocation of Outstanding Debt as of June 30, 2011



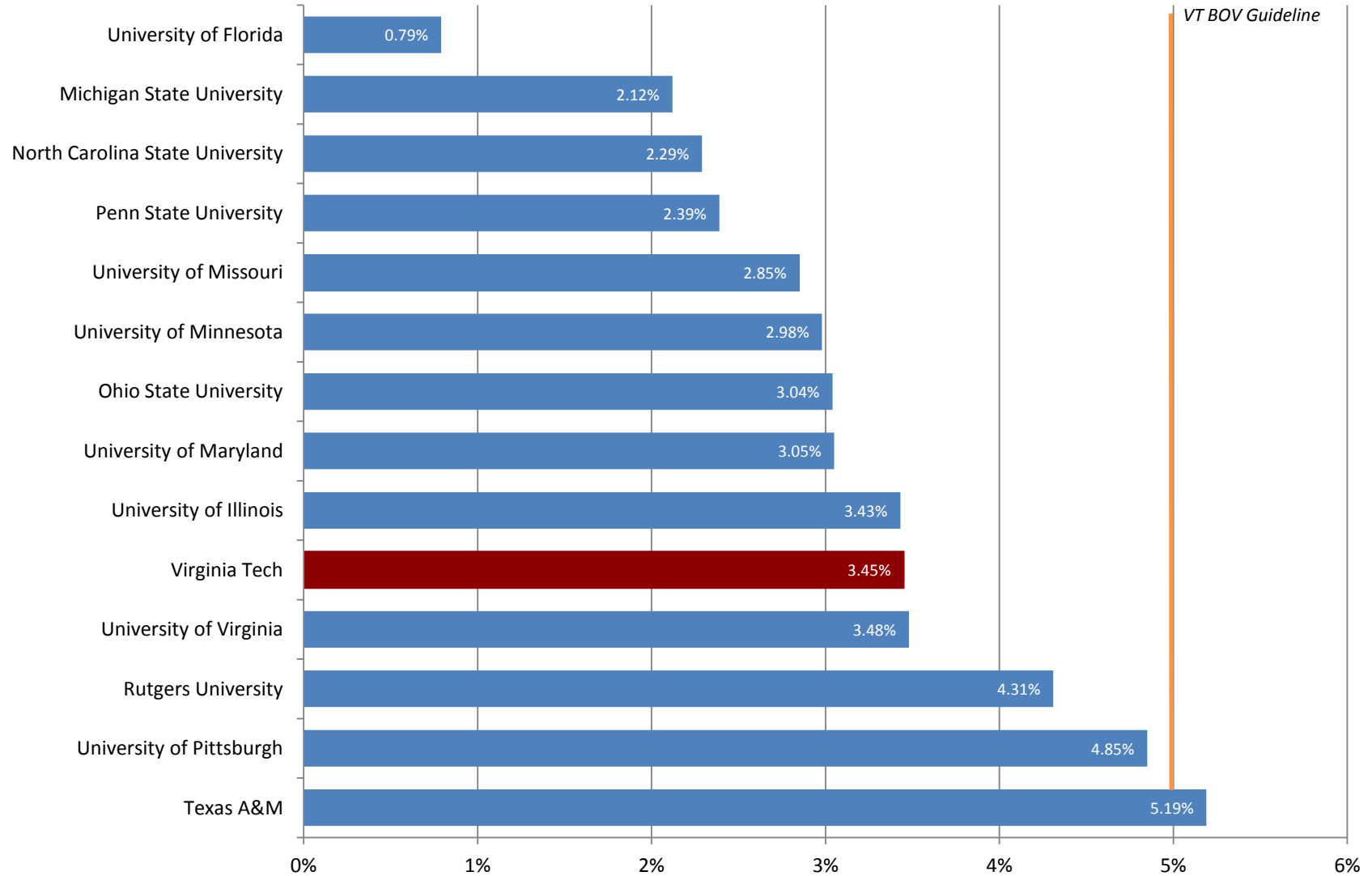
University Debt Ratio Trend

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Debt Ratio Benchmarking

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Source: Moody's Investors Service, October 19, 2011, 2010 Data.

University Debt Capacity

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- University is always working to optimize debt resources
 - Continuous long-range modeling by multi-discipline financial team
 - Use of multiple financing instruments
 - 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

What Can We Do to Maximize Capital Funding?

1. Continue to work 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 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

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