



REVIEW OF CHAPTER 759/769 BOND ISSUANCE LIMIT

FISCAL YEAR
2017

Auditor of Public Accounts
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EXECUTIVE SUMMARY

This is the Auditor of Public Accounts first annual report to satisfy the requirements in Chapters 759/769 of the 2016 Acts of Assembly, Items 10 and 11. This report reviews the annual debt issuance limit enacted by this legislation that restricts the issuance of bonds to support the capital projects authorized by Chapters 759/769 to \$300 million annually and determines compliance with the conditions for the initial release of funding.

We determined that:

- The Six Year Capital Outlay Advisory Committee is properly monitoring the \$300 million annual debt limit, and the Chapter 759/769 project expenditures, totaling \$25.8 million, did not exceed the limit during fiscal year 2017.
- The Governor approved a decision brief related to the Capital Complex project on April 20, 2016, and Item 11 of Chapter 759/769 is satisfied. Therefore, the Departments of General Services and Planning and Budget properly released funding for the detailed planning and construction for the other projects in Chapter 759/769.
- General Services and Planning and Budget properly submitted quarterly reports during fiscal year 2017 on the status of the completion of the General Assembly Building project to the House Appropriations and Senate Finance Committees.

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INTRODUCTION

Chapters 759/769 of the 2016 Acts of Assembly, Items 10 and 11 state, “the Auditor of Public Accounts shall issue a report annually to the Governor, the Speaker of the House of Delegates, the President pro tempore of the Senate, and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance, regarding the adherence to the annual issuance limits. The Auditor of Public Accounts shall monitor any release of funding for the projects in the first and fourth enactments for compliance with the conditions of this enactment and report any noncompliance to the Chairmen of the House Committee on Appropriations and Senate Committee on Finance.” This report reviews the annual issuance limit enacted by this legislation that limits the issuance of bonds to support the capital projects authorized by Chapters 759/769 to \$300 million annually and determines compliance with the conditions for the initial release of funding. The objectives of this report are to:

- Determine how the Six Year Capital Outlay Advisory Committee is monitoring the \$300 million annual debt limit for capital projects set forth in Chapter 759/769, Item 10, and whether the Commonwealth has stayed within the limit.
- Determine if the Departments of Planning and Budget and General Services are complying with Chapter 759/769, Item 11, concerning whether the release of funding is done properly for the projects in the first and fourth enactments for compliance with the conditions of this enactment and quarterly reports are being issued to the Chairmen of the House Appropriations and Senate Finance Committees.

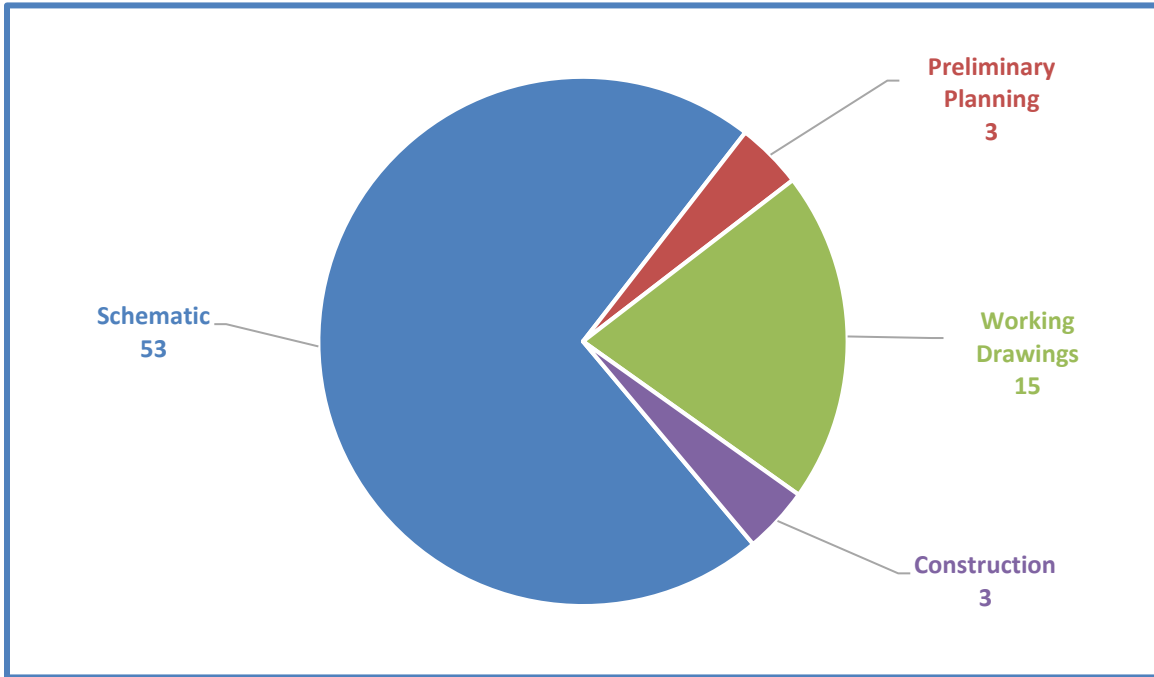
This is the first annual report to satisfy the requirements of Chapters 759/769 of the 2016 Acts of Assembly. We will continue to report on these requirements until the Commonwealth has spent enough bond funds on the Chapter 759/769 capital projects that the annual limit no longer applies. With a \$300 million annual limit, of which any unspent limit compounds with the next year’s limit, and total approved funding for the construction pool of \$1,779 million, the annual limit will no longer apply after five years unless the total funding for the pool increases. We expect our final report to cover fiscal year 2021.

We conducted interviews with personnel at the Department of General Services (General Services) and Planning and Budget (Planning and Budget). We attended the quarterly meetings of the Six-Year Capital Outlay Advisory Committee (Advisory Committee). We tested the process that General Services performs and the Advisory Committee uses to determine when to approve initiation of construction on a capital project to stay within the annual \$300 million issuance limit. We used a non-statistical sampling approach. We designed our samples to support conclusions about our audit objectives. We used an appropriate sampling methodology to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

There are 74 projects in the Chapter 759/769 construction pool. Since the pool was created in fiscal year 2016, the majority of the projects are in the beginning stages of planning. See Appendix A for a listing of all projects and their status. Chart 1 shows a summary of all projects within the Chapter 759/769 construction pool and their relative status:

Project Status for All Projects in Chapter 759/769 Construction Pool

Chart 1



Source: General Services' project listing of Chapter 759/769 projects

BACKGROUND

Prior to the enactment of Chapter 759/769, the Auditor of Public Accounts reported on the cash flow requirements for each project, any deviation in necessary project appropriation and allotment, and compliance with the annual debt issuance limit for the capital outlay project pools in Chapter 806 of the 2013 Acts of Assembly. The Auditor of Public Accounts issued its first annual report on this topic in January 2015 titled, [Review of Capital Project Cash Flow Requirements](#), the second annual report in January 2016 titled, [Review of Capital Project Cash Flow Requirements](#), and the third annual report in December 2016 titled, [Review of Capital Project Cash Flow Requirements](#). In addition, the Auditor of Public Accounts issued a report in January 2014 titled, [Review of Capital Outlay Funding and Cash Flow Processes](#) that provides a description and history of the capital project pooled approach and the Advisory Committee.

The prior reports provide detail over the cash flow processes and the method to monitor the annual issuance limit for pool funded projects. General Services and Planning and Budget are using similar processes developed for tracking the annual debt issuance limit established under Chapter 806 pool funded projects to monitor the annual issuance limit for the construction pool in Chapter 759/769.

MONITORING THE ANNUAL ISSUANCE LIMIT

Chapters 759/769 of the 2016 Acts of Assembly, Item 10, states not more than a total aggregate principal amount of \$300 million in debt obligations shall be issued excluding refunding bonds in any fiscal year for such capital projects, provided, however, that if less than a total aggregate principal amount of \$300 million in debt obligations is incurred in any fiscal year for such capital projects, the unused amount may be added to any other subsequent fiscal year. The Advisory Committee is responsible for reviewing the cash flow needs and ensuring that they do not approve projects for construction that will jeopardize staying under the \$300 million annual limit.

With General Services’ assistance, the Advisory Committee uses the GCPay cash flow algorithm to forecast cash flows for projects to ensure that the expenditures for approved projects will stay within the \$300 million annual limit. GCPay is a vendor that provides a web-based service to process payment applications and track expenditures for construction projects. General Services no longer requires agencies to use GCPay to submit, review, and approve construction contractor’s schedule of values, pay applications, or architect and engineering invoices as outlined in previous reports. For Chapter 759/769, General Services is using agency provided data, such as project start and end dates and project cost, to forecast cash flows for each project. General Services uses the cash flow algorithm in GCPay and appropriate data received from agencies quarterly to produce several graphs to help the Advisory Committee make decisions.

The Advisory Committee discovered early on that several large projects were going to make it very difficult to stay within the \$300 million issuance limit of Chapter 759/769. This could potentially force the Advisory Committee to stop or slow down projects ready for construction to stay within the limit. Therefore, in Chapter 836 of the 2017 Acts of Assembly, Item 52.50, the General Assembly removed nine non-general fund projects from the annual issuance limit set out in Chapter 759/769. The removal of these nine projects will help the Advisory Committee meet the \$300 million annual limit.

Nine Non-General Fund Projects Removed from Annual Limit

Table 1

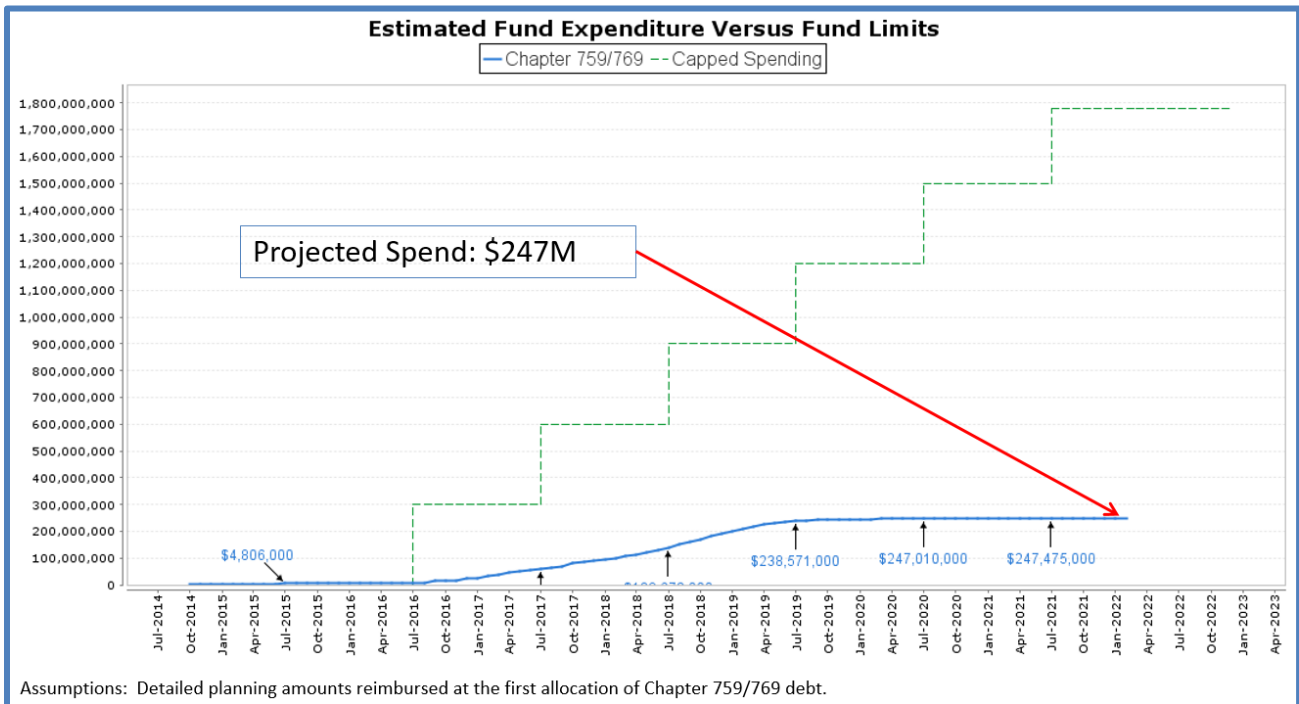
Agency Name	Project Title	Project #
UVA	Renovate Gilmer Hall and Chemistry Building	18082
CWM	Construct West Utilities Plant	18202
VCU	Construct School of Allied Health Professions Building	18206
GMU	Construct Utilities Distribution Infrastructure	18208
VCU	Expand School of Engineering	18243
VPISU	Renovate Holden Hall (Engineering)	18267
VPISU	Construct VT Carilion Research Institute Biosciences Addition	18269
JMU	Construct New School of Business	18273
CWM	Construct Fine and Performing Arts Facility, Phases I and II	18292

Source: DGS’ Summer 2017 Quarterly Update on Pool Status

For planning purposes, the Advisory Committee directs General Services' to use GCPay to create two future year cash flow graphs to monitor the \$300 million annual limit. The first graph (See Chart 2) includes Chapter 759/769 projects within the construction pool that are approved for construction or for detailed planning from the construction pool. The second graph (See Chart 3) includes all Chapter 759/769 projects within the construction pool. For the purposes of these graphs, the nine projects excluded from the annual debt limit by Chapter 839, Item 52.50 are not shown within the approved projects graph or all projects graph. However, these project expenditures still count against the total pool funding limit.

Chapter 759/769, Projects Approved as of June 30, 2017
(Excludes Nine Non-General Fund Projects)

Chart 2



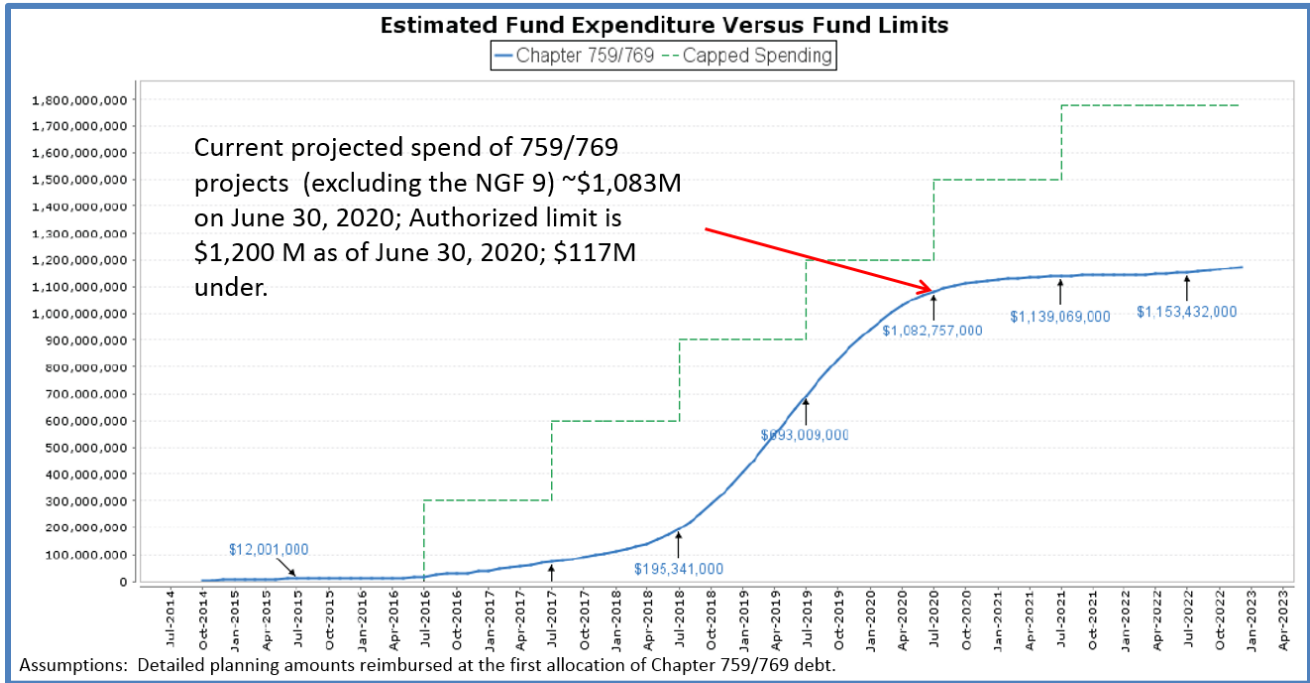
Source: GCPay Generated Report as shown in the June 30, 2017, State of the Pools Report

The approved projects graph (Chart 2) has more developed budgets being used to create the graph, including information pertaining to planning and construction and more accurate start and end dates for particular phases of a project. Chart 2 is the basis of the evaluation for compliance with the \$300 million limit for approval to initiate a capital project through the General Services Form CO-2.

Chart 3 includes all projects including those with less developed plans and budgets to forecast total estimated project costs over the entire bell curve, where Chart 2 uses information for planning and construction expenditures to more appropriately distribute the data within the graph.

Chapter 759/769, Projection for All Projects as of June 30, 2017
(Excludes Nine Non-General Fund Projects)

Chart 3



Source: GCPay Generated Report as shown in the June 30, 2017, State of the Pools Report

Chapter 759/769 approved \$1,778.6 million in bond funds for the projects listed within Chapter 759/769 construction pool. After reconciliation of the Senate Finance Committee, House Appropriations Committee, Planning and Budget, and General Services’ budget estimates for the pool, the Advisory Committee identified a potential pool shortfall of \$25.8 million. The Advisory Committee will monitor and account for this potential shortfall as the construction funding expenditures progress.

Chart 2 shows the estimated expenditures for all approved projects using the approved amounts and schedule information received from the agencies and applying the GCPay algorithm. The graph shows the current estimated Chapter 759/769 project expenditures per year (solid blue line) and the \$300 million yearly spending restriction set by the General Assembly (dotted green line). It appears that the estimated expenditures for the Chapter 759/769 projects approved through June 30, 2017, will not exceed the spending cap established by the General Assembly.

Chart 3 shows the projection of all project expenditures in Chapter 759/769, excluding the nine projects not subject to the limit, totaling approximately \$1,153 million. Chart 3 shows that the expenditures for the projects included within the limit will remain under the \$300 million issuance limit at June 30, 2017.

Not shown in Chart 2 or 3, the projection for the total project pool, including the nine projects not counting towards the limit, is \$1,804.4 million, which is \$25.8 million over the approved \$1,778.6 million. Going forward, the Advisory Committee will have to continue to monitor the projects at the

completion of detailed planning and prior to construction contract awards to ensure the pool expenditures do not exceed authorized spending limits in total or within each annual, compounding \$300 million limit.

To verify that Chapter 759/769 project expenditures did not exceed the \$300 million annual issuance cap during fiscal year 2017, we compiled the actual expenditures from the Commonwealth’s accounting and financial reporting system. The project expenditures total \$25.8 million, which does not exceed the \$300 million limit. Table 2 includes the projects and their corresponding expenditures for fiscal year 2017.

Chapter 759/769 Project Expenditures
Fiscal Year 2017

Table 2

Agency Name	Project Title	Project #	Expenditures
DCR	Department of Conservation and Recreation	18056	\$ 1,548,072
UMW	University of Mary Washington	18066	2,249,591
ODU	Old Dominion University	18068	280,289
FCM	Frontier Culture Museum	18073	17,475
CNU	Christopher Newport University	18074	9,852,606
VCCS	Virginia Community College System	18076	291,045
VCCS	Virginia Community College System	18078	1,010,568
VCCS	Virginia Community College System	18079	359,103
LU	Longwood University	18083	866,013
LU	Longwood University	18084	1,418,103
VIMS	Virginia Institute of Marine Science	18088	1,046,209
SWVHEC	Southwest Virginia Higher Education Center	18126	66,927
DCR	Department of Conservation and Recreation	18159	255,928
WWRC	Wilson Workforce and Rehabilitation Center	18160	1,032,325
VCCS	Virginia Community College System	18161	679,914
DBHDS	Department of Behavioral Health and Developmental Services	18166	2,066,073
VMI	Virginia Military Institute	18203	84,760
VMI	Virginia Military Institute	18204	281,290
VCU	Virginia Commonwealth University	18205	11,190
GMU	George Mason University	18207	1,563,406
VCCS	Virginia Community College System	18209	894,326
	Total		\$25,875,213

Source: Commonwealth’s accounting and financial reporting system

APPROVED DECISION BRIEF

Enactment 11 of Chapter 759/769 requires the Governor to approve a decision brief that directs General Services to proceed with the Capitol Complex Infrastructure and Security project, which includes the subproject New Construction of General Assembly Building before any funding can be released for certain projects within Chapter 759/769 for detailed planning and construction. The Governor approved a decision brief related to the Capital Complex project on April 20, 2016, satisfying this requirement. Therefore, funding for the detailed planning and construction for the other projects in Chapter 759/769 can proceed. In addition, General Services and Planning and Budget properly submitted quarterly reports during fiscal year 2017 on the status of the completion of the General Assembly Building project to the House Appropriations and Senate Finance Committees.



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Commonwealth of Virginia

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November 20, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the processes to monitor and manage the annual bond issuance limit and are pleased to submit our report entitled **Review of Chapter 759/769 Bond Issuance Limit**. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

- Determine how the Advisory Committee is monitoring the \$300 million annual debt limit for capital projects set forth in Chapter 759/769, Item 10, and whether the Commonwealth has stayed within the limit.
- Determine if Planning and Budget and General Services are complying with Chapter 759/769, Item 11, concerning if the release of funding is done properly for the projects in the first and fourth enactments for compliance with the conditions of this enactment and quarterly reports are being issued to the Chairmen of the House Appropriations and Senate Finance Committees.

Conclusion

The Advisory Committee is properly monitoring the \$300 million annual debt limit, and the Chapter 759/769 project expenditures, totaling \$25.8 million, did not exceed the limit during fiscal year 2017.

The Governor approved a decision brief related to the Capital Complex project on April 20, 2016, and Item 11 of Chapter 759/769 is satisfied. Therefore, General Services and Planning and Budget properly released funding for the detailed planning and construction for the other projects in Chapter 759/769. In addition, General Services and Planning and Budget properly submitted quarterly reports on the status of the completion of the General Assembly Building project to the House Appropriations and Senate Finance Committees during fiscal year 2017.

Report Distribution

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

APPENDIX A
CHAPTER 759/769 CONSTRUCTION POOL PROJECT STATUS
AS OF JUNE 30, 2017

Agency Name	Project Title	Project #	Status
DCR	Construct Widewater State Park, Phase 1	18056	Schematic
ODU	Construct Chemistry Building	18068	Schematic
FCM	Construct Early American Industry Exhibit	18073	Schematic
VCCS	Replace Phase I Academic and Administration Building, Eastern Shore	18076	Schematic
CNU	Construct and Renovate Fine Arts and Rehearsal Space	18086	Schematic
SWVHEC	Construct Service Corridor, Storage Area; Replace Generator	18126	Schematic
VCCS	Construct Academic Building, Fauquier Campus, Lord Fairfax	18161	Schematic
VCCS	Renovate Seefeldt Academic Building/Replace Building Envelope, Woodbridge Campus, Northern Virginia	18162	Schematic
VCCS	Renovate Howsmon/Colgan Building, Manassas Campus, Northern Virginia	18163	Schematic
DBHDS	Expand Sexually Violent Predator Facility	18166	Schematic
DFS	Expand Central Forensic Laboratory and the Office of Chief Medical Examiner Facility	18167	Schematic
SMV	Construct Parking Facility/Master Site Plan	18200	Schematic
DCR	Develop Clinch River State Park	18201	Schematic
CWM●	Construct West Utilities Plant	18202	Schematic
VMI	Renovate Preston Library	18203	Schematic
VMI	Post Infrastructure Improvements, Phases I, II, and III	18204	Schematic
VCU	Construct Commonwealth Center for Advanced Logistics Systems (CCALS)	18205	Schematic
GMU●	Construct Utilities Distribution Infrastructure	18208	Schematic
VCCS	Renovate Bird Hall and Renovate/Expand Nicholas Center, Chester Campus, John Tyler	18209	Schematic
DBHDS	Expand Western State Hospital	18210	Schematic
VCU●	Expand School of Engineering	18243	Schematic
DCR	Provide Various Utility/ADA Upgrades	18256	Schematic
DCR	Construct Retaining Wall on Lovers Leap Trail at Natural Tunnel State Park	18257	Schematic
DCR	Repair/Replace Trestles at New River Trail State Park	18258	Schematic
DCR	Replace Existing Bulkheads at False Cape State Park	18259	Schematic
DCR	Replace Bridge to Amphitheater at Hungry Mother State Park	18260	Schematic
DCR	Complete Bridge Repair at Staunton River Battlefield	18261	Schematic
DCR	Construct Restroom at 64th Street Entrance at First Landing State Park	18262	Schematic

Agency Name	Project Title	Project #	Status
DCR	Construct Restroom at Massie Gap in Grayson Highlands State Park	18263	Schematic
DCR	Construct Various Cabins at Pocahontas and Powhatan State Parks	18264	Schematic
DCR	Renovate Various Cabins	18265	Schematic
DCR	Renovate Various Campgrounds	18266	Schematic
VPIU●	Renovate Holden Hall (Engineering)	18267	Schematic
VMI	Construct Central Chiller Plant, Phase II	18268	Schematic
VPIU●	Construct VT Carilion Research Institute Biosciences Addition	18269	Schematic
VMI	Renovate Scott Shipp Hall	18270	Schematic
LU	Replace Steam Distribution System Wheeler Mall	18271	Schematic
UMW	Repair/Replace Underground Utilities	18272	Schematic
JMU	Renovate Wilson Hall	18274	Schematic
VPIU CES	Construct Livestock and Poultry Research Facilities - Phase I	18277	Schematic
VMFA	Replace Air Handling Units	18278	Schematic
VCCS	Improve Life Safety and Security Systemwide, Phase I	18279	Schematic
VCCS	Repair or Replace Major Mechanical Systems, Northern Virginia, New River and Mountain Empire	18280	Schematic
VIMS	Replace Mechanical Systems and Repair Building Envelope of Chesapeake Hall	18281	Schematic
EVMS	Renovate Lewis Hall	18283	Schematic
EVMS	Construct New Education and Academic Administration Building	18284	Schematic
JYF	Renovate Exhibits	18285	Schematic
DJJ	Construct New Juvenile Correctional Center, Chesapeake	18286	Schematic
DOC	Renovate Marion Correctional Center	18288	Schematic
SVHEC	Replace Roof, HVAC, and Make other Repairs	18290	Schematic
CWM●	Construct Fine and Performing Arts Facility, Phases I and II	18292	Schematic
UMW	Renovate Seacobeck Hall to Academic Facility	18297	Schematic
DCR	Renovate Foster Falls Hotel at New River Trail State Park	18298	Schematic
GMU	Renovate Robinson Hall and Harris Theater	18207	Preliminary Planning
JMU●	Construct New School of Business	18273	Preliminary Planning
EVMS	Renovate Hofheimer Hall	18282	Preliminary Planning
UMW	Construct Jepson Science Center Addition	18066	Working Drawings
VCCS	Construct Bioscience Building, Blue Ridge	18078	Working Drawings
VCCS	Construct Student Service and Learning Resources Center, Christanna Campus, Southside Virginia	18079	Working Drawings
UVA●	Renovate Gilmer Hall and Chemistry Building	18082	Working Drawings
LU	Construct Admissions Office	18083	Working Drawings

Agency Name	Project Title	Project #	Status
LU	Construct New Academic Building	18084	Working Drawings
DCR	Renovate Walnut Valley Farm at Chippokes State Park	18159	Working Drawings
WWRC	Renovate and Expand Anderson Vocational Training Building, Phase II	18160	Working Drawings
DOC	Replace Generators - Statewide	18169	Working Drawings
RU	Renovate Curie and Reed Halls	18275	Working Drawings
VSDB	Renovate Bradford Hall	18276	Working Drawings
DOC	Replace roofs - Red Onion and Wallens Ridge	18287	Working Drawings
RHEA	Renovate and Expand Clinical Simulation Labs for Nursing	18289	Working Drawings
VSU	Maintenance Reserve Supplement/Master Plan Update	18293	Working Drawings
NSU	Maintenance Reserve Supplement/Master Plan Update	18294	Working Drawings
CNU	Construct Library, Phase II	18074	Construction
VIMS	Construct Facilities Management Building	18088	Construction
VCU●	Construct School of Allied Health Professions Building	18206	Construction

Source: DGS' Summer 2017 Quarterly Update on Pool Status

Legend

- Non-general fund projects removed from the annual bond issuance limit.
- Schematic: Undergoing schematic design development and cost review.
- Preliminary planning: Undergoing preliminary design development and cost review; schematic cost review report issued.
- Working drawings: Undergoing working drawings development; preliminary cost review and detailed planning complete (CO-2 forwarded to Planning and Budget to BCOM).
- Construction: Approved for construction contract award via BCOM-approved CO-8, approval to award construction contract; or if funding is supplemental/Furniture, fixtures, and equipment only (for which no CO-8 is required).

APPENDIX B
ACRONYMS FOR AGENCIES AND INSTITUTIONS
CAPITAL OUTLAY FORMS

Acronym	Agency/Institution
CNU	Christopher Newport University
CWM	College of William and Mary
DBHDS	Department of Behavioral Health and Developmental Services
DCR	Department of Conservation and Recreation
DOC	Department of Corrections
DFS	Department of Forensic Science
DJJ	Department of Juvenile Justice
DVS	Department of Veterans Services
EVMS	Eastern Virginia Medical School
FCM	Frontier Culture Museum
GMU	George Mason University
JMU	James Madison University
JYF	Jamestown-Yorktown Foundation
LU	Longwood University
NSU	Norfolk State University
ODU	Old Dominion University
RU	Radford University
RHEA	Roanoke Higher Education Authority
SMV	Science Museum of Virginia
SVHEC	Southern Virginia Higher Education Center
SWVHEC	Southwest Virginia Higher Education Center
UMW	University of Mary Washington
UVA	University of Virginia
VCCS	Virginia Community College System
VCU	Virginia Commonwealth University
VIMS	Virginia Institute of Marine Science
VMI	Virginia Military Institute
VMFA	Virginia Museum of Fine Arts
VPISU	Virginia Tech
VSDB	Virginia School for the Deaf and Blind
VSU	Virginia State University
VPISU CES	VPISU Cooperative Extension Service
WWRC	Woodrow Wilson Rehabilitation Center

Acronym	Capital Outlay Form
CO-2	Authority to Initiate Capital Outlay Project
CO-8	Approval to Award Construction Contract

REVIEW OF CHAPTERS 759/769 BOND ISSUANCE LIMIT

as of June 30, 2017

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