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Director

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**MEMORANDUM**

**TO:** The Honorable Thomas K. Norment, Jr., Co-Chair, Senate Finance Committee  
The Honorable Emmett W. Hanger, Jr., Co-Chair, Senate Finance Committee  
The Honorable S. Chris Jones, Chairman, House Appropriations Committee  
The Honorable Aubrey L. Layne, Jr., Secretary of Finance

**FROM:** Peter Blake, Director, State Council of Higher Education for Virginia

**DATE:** October 1, 2018

**SUBJECT:** Capital Outlay Financial Feasibility Update

Chapter 2 of the 2018 Virginia Acts of Assembly (§ 4-4.01 CAPITAL PROJECTS - GENERAL) the Council of Higher Education to do the following:

***j.2. By August 15 of each year, institutions shall also prepare and submit copies of financial feasibility studies to the State Council of Higher Education for Virginia for 9(d) obligations where debt service is expected to be paid from project revenues or revenues of the institution. The State Council of Higher Education shall identify the impact of all projects requested by the institutions of higher education, and as described in § 4-4.01 j.1. of this act, on the current and projected cost to students in institutions of higher education and the impact of the project on the institution's need for student financial assistance. The State Council of Higher Education for Virginia shall report such information to the Secretary of Finance and the Chairmen of the House Appropriations and Senate Finance Committees no later than October 1 of each year.***

In accordance with this requirement, SCHEV has reviewed the financial feasibility studies submitted for projects requested for FY2020. Through this review, we have identified the likely impact that each project will have on student charges and on the institutions' need for student financial assistance.

The attached report summarizes our findings. If you have any questions or if we can be of further assistance, please contact me at (804) 225-2611.

c: Ms. April Kees, Staff Co-Director, Senate Finance Committee  
Mr. Jason Powell, Staff Co-Director, Senate Finance Committee  
Mr. Robert Vaughn, Staff Director, House Appropriations Committee  
Mr. Dan Timberlake, Director, Department of Planning and Budget

**SCHEV - Estimated Impact of New 9(d) Debt on Student Fees and Financial Aid Need - 2019-20**

Fiscal Year	Institution	Project	Debt Amount	Major Revenue Sources	Current Mandatory Non-E&G Fees	Increase in Mandatory Non-E&G Fees	New Mandatory Non-E&G Fee	Percent Increase	Increase in Financial Aid Need
2020	GMU	Construct Academic VIII/Research IV (Instruction and Research)	\$ 45,313,500	Indirect Cost Recovery - Sponsored Programs	\$ 3,402	N/A	N/A	N/A	----
2020	GMU	Telecom Infrastructure Phase II (Infrastructure)	\$ 24,000,000	Auxiliary Enterprises	\$ 3,402	N/A	N/A	N/A	----
2020	GMU	Telecom Infrastructure Phase III (Infrastructure)	\$ 10,302,000	Auxiliary Enterprises	\$ 3,402	N/A	N/A	N/A	----
	Subtotal		\$ 79,615,500						
2020	ODU	Student Health & Wellness Addition (Student Services)	\$ 9,200,000	<sup>(1)</sup> Increase to Student Health Fee	\$ 3,825	\$ 22	\$ 3,847	0.6%	\$ 165,198
	Subtotal		\$ 9,200,000						
2020	VT	Dietrick First Floor and Plaza Project (Dining Services; Supplemental Funding)	\$ 1,300,000	System-wide Board Fee Increase	\$ 2,025	\$ 33	\$ 2,058	1.6%	\$ 220,171
	Subtotal		\$ 1,300,000						
	Total		\$ 90,115,500						
<b>Total</b>									<b>\$ 385,369</b>

<sup>(1)</sup> Fee Increase is \$22 each year over two years.

## Financial Feasibility Study

Colleges and universities in Virginia are required by law to submit Financial Feasibility Studies to SCHEV and/or the State Treasurer for projects where debt service is to be paid from student fees or other institutional funds. The language in the Act is shown below.

### § 4-4.01 GENERAL

j. Capital Projects Financed with Bonds: Capital projects proposed to be financed with (i) 9 (c) general obligation bonds or (ii) 9(d) obligations where debt service is expected to be paid from project revenues or revenues of the agency or institution, shall be reviewed as follows:

...

2. By August 15 of each year, institutions shall also prepare and submit copies of financial feasibility studies to the State Council of Higher Education for Virginia for 9(d) obligations where debt service is expected to be paid from project revenues or revenues of the institution. The State Council of Higher Education shall identify the impact of all projects requested by the institutions of higher education, and as described in § 4-4.01 j.1. of this act, on the current and projected cost to students in institutions of higher education and the impact of the project on the institution's need for student financial assistance. The State Council of Higher Education for Virginia shall report such information to the Secretary of Finance and the Chairmen of the House appropriations and Senate Finance Committees no later than October 1 of each year.

Financial Feasibility Studies (FFS) are comprehensive debt-financed capital outlay project evaluation instruments. Financial Feasibility Studies allow the borrowing institution to provide a complete description of the projects for which state-sponsored debt is being requested and to provide detailed information on the anticipated costs associated with the project and on the sources and uses of funds associated with the project. Part 1 of the instrument consists of four sections; General Information, Cost Information, Revenue Information and General Financial Condition. Part 2 consists of Cost, Revenue and Net Revenues/Coverage spreadsheets.

Under current law, for each applicable project, SCHEV is responsible for receiving FFSs from the institutions, determining the cost to students, estimating the impact of the project on the institution's need for student financial aid, and reporting its findings to the Secretary of Finance and to the money committee chairmen. Currently, SCHEV's findings are transmitted simply as an information item. They do not constitute a recommendation of the Council.

The new 9(d) debt amount for projects in FY2020 is \$90.1 million creating an increased financial aid need of \$385,369 to support increases in mandatory non-E&G fees. If this need is not funded by general fund need-based financial aid then institutions will likely turn to tuition revenue or other private sources to address this need.