

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance and Facilities

Date of Meeting: March 21, 2012

Agenda Item: FY2014-2019 Capital Budget Guidelines

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda:

The purpose of this request is to seek Board of Trustee approval of guidelines in preparing the capital budget request for 2014-2019. This is the first reading.

Scheduled Presenter(s): Brian Yolitz – Associate Vice Chancellor of Facilities

Outline of Key Points/Policy Issues:

The Minnesota State Colleges and Universities Board of Trustees will review and approve a capital budget request for fiscal years (FY) 2014-2019 for submission to Minnesota Management and Budget in June 2013. The approved budget will be submitted to the Minnesota legislature and governor for consideration as part of a FY2014 capital bonding bill.

Background Information:

The state of Minnesota is asked to issue general obligation bonds as a part of the biennial capital budget for academic and direct support facilities and infrastructure. Capital investments for dormitories, student unions, wellness centers, and parking lots and ramps area made through system’s revenue fund bonding authority.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

ACTION ITEM
FY2014 - 2019 Capital Budget Guidelines

PURPOSE

The purpose of this request is to seek Board of Trustee approval of guidelines for the preparation of the capital budget plan for 2014-2019. Committee feedback will be incorporated into the final document for committee and Board review and approval scheduled for April, 2012.

BACKGROUND

The Minnesota State Colleges and Universities Board of Trustees will review and approve a capital budget plan for fiscal years (FY) 2014-2019 for submission to Minnesota Management and Budget in June 2013. The approved plan will be submitted to the Minnesota legislature and governor for consideration as part of an FY2014 capital bonding bill. The state of Minnesota is asked to issue general obligation bonds as a part of the biennial capital budget for academic and direct support facilities and infrastructure. Capital investments for dormitories, student unions, wellness centers, and parking lots and ramps area made through system’s revenue fund bonding authority.

The general obligation capital bonding plan for academic and direct support facilities and infrastructure has three primary elements:

Higher Education Asset Preservation and Replacement (HEAPR): Capital requirements addressing code compliance including health and safety, Americans with Disabilities Act (ADA), hazardous material abatement, access improvement, or air quality improvement; building energy efficiency improvements; or building or infrastructure repairs necessary to preserve the interior and exterior of existing buildings; or renewal to support the existing programmatic mission of the campuses. Projects contained in this element are subject to the statutory definition of eligibility. Up to ten percent of a HEAPR appropriation may be used for design costs for future HEAPR projects. The system pays no debt service on HEAPR appropriations.

Major Capital Projects: this element includes capital requirements, typically over \$2 million, for major maintenance, repair, and renewal; reconfiguration and rightsizing; demolition; and construction of new facility spaces. All major projects are part of an approved facilities master plan and have a completed predesign evaluating project scope, cost, value, return on investment, alternatives, phasing, and schedule implications. The

predesigns also identify design and construction delivery options and offer extensive justification. Wherever possible, campus planners are encouraged to blend projects to address a facilities deferred maintenance backlog.

Projects that are smaller than \$5 million have typically sought both design and construction funding in a single biennium with the expectation that all work will be completed within two – three years. Larger projects, greater than \$5 million, seek design funding in one biennium and construct in the next.

For major capital projects, the system is responsible for one-third of the debt. The Board historical policy has assigned one-sixth of the debt is covered to the system as a whole and one-sixth to the institution requesting the project. The state typically sells 20-year bonds, so the system and institution's debt service obligation is similarly 20 years.

System Initiatives: the third element concerns smaller capital projects, typically less than \$750,000, bundled together under a theme addressing a specific program need at several campuses in a single line item capital request. System initiative themes in the past have sought to address program needs for demolition, small projects, real estate acquisition, smart classrooms, classroom renovation, energy, and science technology, engineering and math (STEM) spaces.

Similar to major capital projects, the system is responsible for one-third of the debt for initiative projects. One-sixth of the debt is covered from the system as a whole and one-sixth is paid by the institution requesting the project. Again, these are typically 20 year obligations.

Capital Investment Strategy: The basic capital investment strategy has been to “keep up and catch up”. The strategy seeks to “keep up” with the anticipated life cycle facility renewal needs and to “catch up” by reducing the deferenence maintenance backlog. Recognizing that resources for facility investment are limited, a ten year goal was set to cut the deferred maintenance backlog by 50%. The result would improve the overall system facility condition index (FCI), the ratio of the deferred maintenance backlog to the plant replacement value, form .11 to .06.

Based on calendar year 2010 data, the estimated renewal needs (keep up) for the system academic and support facilities is \$800 million, the deferred maintenance backlog (catch up) is \$655 million and the estimated plant replacement value for these assets is \$6.0 billion. This puts the system current FCI at 0.11.

Applying the “keep up and catch up” strategy to the next 10 years results in :

- an annual “keep up” requirement of \$80 million (\$800M / 10 years),
- an annual “catch up” requirement of roughly \$33 million (\$655 X 50% / 10 years)
- In addition, there are an estimated \$30 million in annual capital investments needs for campus infrastructure renewal and facility modernization.

The 10 year investment plan results in a total annual requirement of \$143 million or \$286 million over a biennium. Funding for new or substantially re-purposed facility space would be on top of these figures.

Capital Investment Sourcing: Funds for the upkeep and maintenance of academic and support facility spaces comes from HEAPR, major capital projects that have renovation/modernization and backlog reduction as key components of their scope of work, and campus repair and replacement (R&R) funding.

The investment strategy in support of the above requirements has historically been:

- An annual target of \$55 million from HEAPR
- An annual target of \$65 million for major capital projects with HEAPR-like renovation/modernization and backlog reduction
- A Board approved annual target of \$22 million in campus funded repair and replacement - (based on goal of \$1.00 / academic and support square foot)

The above three strategies represent a total target investment in the existing plant of \$142 million annually or \$284 million over a biennium.

FY2012-2017 Capital Program Assessment:

The total capital budget plan for FY2012-2017 seeks \$278.7 million for FY2012 and proposed \$204 million for 2014 and \$158 million for 2016.

Within the FY2012 plan, \$110 million is for HEAPR and \$101 million in HEAPR-like work in the requested major capital projects.

Campus R&R investment has exceeded the target in FY2010 and FY2011 at \$1.22/square foot. If the pattern continues, an additional \$54 million will be invested annually in FY2012 and FY2013 by the campuses.

Were the 2012 capital request to be fully funded, the investment strategy would be slightly below the above outlined targets at a total biennial investment of \$265 million or \$132.5 million annually.

CAPITAL BUDGET GUIDELINES FOR FY2014-2019

The overarching principles for capital planning in FY2014-2019 are:

- Take care of what we have
- Make campus space more efficient and flexible
- Mothball or demolish what is no longer viable in terms of conditions, operating costs and programs, and
- Only consider new square footage if the requirement meets the three priorities in the strategic framework.

Projects meeting the above criteria will also be asked to demonstrate their role in advancing the system strategic framework.

Ensure access to an extraordinary education for all Minnesotans: Projects must reflect state and regional demographic trends, advance workforce related certificate as well as baccalaureate programming, enhance access, and address underrepresentation issues. Projects shall have evidence that they:

- Support redesign of the classroom experience or academic programs to create an extraordinary education,
- Increase access to baccalaureate programs,
- Contribute to academic success of students traditionally underrepresented in higher education,
- Enable greater collaboration among colleges and universities in courses, academic programs, and student services,
- Advance a regional and/or state-wide academic plan, and
- Meet changes in student demand in programs where there is evidence that the demand will be sustained into the future.

Be the partner of choice to meet Minnesota's workforce and community needs: Projects will reflect partnerships with current and emerging workforce and community as partnerships and collaboration with the system. Projects shall have evidence that it will:

- Contribute to the delivery of programs that address continuing or emerging workforce and/or community needs
- Advance growth in programs demonstrating strong and sustained future demand that align with workforce needs
- Support and enhance STEM programs, and
- Increase retention, completion, and transfer within the system.

Deliver to students, employers, communities and taxpayers the highest value / most affordable option: Projects will represent value through academic multipurposing of spaces and improved utilization, energy efficiency, improved utilities or infrastructure, improved facility conditions/reduced deferred maintenance, and institutional financial stability. Projects shall have evidence that it will:

- Advance cooperation among campuses to reduce costs and enable the sharing of administrative operations, academic programs, and academic support.
- Demonstrate an investment to preserve and protect facilities, infrastructure and reduce operating costs.
- Maximize the efficient use of existing space on campus or within the region.
- Represent a net neutral or reduction of total campus space through a combination of construction, renovation, reutilization and demolition.
- Create flexible space with greater capacity for changes in program utilization and/or individual program growth.

- Represent a ‘major’ reduction in deferred facility maintenance backlog and a positive impact on the FCI.
- Indicate sound planning in terms of overall project cost through metrics such as dollars per square foot, cost per FYE, etc.
- Support evidenced by campus local investment in terms of sustained R&R rates.
- Minimize the need to create new or additional utility and support infrastructure.
- Represent a financially viable effort in terms of current and future campus financial position and Composite Financial Index (CFI).
- Incorporate substantial resource (water/utility) savings and conservation. and “rightsizing” of the campus fulfill financial ability, ensure access to all regions and advance academic programs.

Workforce Alignment: Minnesota State Colleges and Universities are where Minnesotans turn for workforce preparation and training. Emerging from regional meetings jointed hosted by system office Academic and Student Affairs staff and the Department of Employment and Economic Development “25 Occupations in Demand.” Capital project documentation, including HEAPR work, will include evidence of their support to these workforce areas.

Quality classrooms supporting general studies and liberal arts play an important role in creating a foundation for all of our workforce preparation, transfer programs, advanced studies and in supporting 4-year baccalaureate studies. Projects that protect, renovate, and create these spaces will also be documented and supported.

Other Components: In streamlining the project evaluation process, both the written documentation and the evaluation methods will be more precise in a number of areas. Improved guidance will be given on criteria to avoid vagueness.

- Process will be looking for objective data or documentation to demonstrate evidence of the framework.
- Scoring instrument will favor additional funds that the campus can bring to the table to reduce the cost of the capital project.
- Projects previously approved in the 2012 budget cycle will be reviewed for their priority in relationship to other carry forward projects as well as new proposed projects. Staff will also evaluate both prior approved projects and new projects for cost, schedule and any scope changes along with inflation.

OVERALL SIZE OF CAPITAL BUDGET REQUEST

A report to the Board on Physical Plant and Budget Size in April 2011 indicated the system had debt capacity to handle a request for major and initiative projects of between \$150 million and \$250 million in FY2012 and \$150 million per biennium thereafter. The major and initiative project target is in addition to a biennial HEAPR request of \$110 million. For FY2012-2017, the total system capital plan is \$278.7 million which includes \$168.7 million for major and initiative capital projects and \$110 million for HEAPR.

In keeping with the “keep up and catch up” strategy, the chancellor will prepare a FY2014 capital program substantially weighted toward HEAPR and HEAPR-like major capital projects with a combined target funding of \$240 million. Capital projects will be supported after individual assessments and settlement of the 2012 capital program discussion with the legislature. The overall total program is expected to come in at less than \$350 million.

RECOMMENDED COMMITTEE ACTION:

The Finance and Facilities Committee recommends the Board of Trustees adopt the following motion:

The Board of Trustees approves the FY2014-2019 Capital Budget Guidelines as presented.

RECOMMENDED MOTION:

The Board of Trustees approves the FY2014-2019 Capital Budget Guidelines as presented.

Presented to the Board of Trustees: March 21, 2012