



Presentation by USHE Associate Commissioner for Finance and Facilities

Introduction

Utah System of Higher education (USHE) institutions look to the State for support of campus facilities needs in several ways. The purpose of this presentation is to provide a basic understanding of the areas involved and the processes followed to enable the Regents to appropriately discharge their responsibility in this important arena. An important part of the process is the interaction and coordination with State Government as it relates to procuring the funds for planning, construction, and ongoing operation and maintenance of the facilities.

For the Capital Facilities Overview, we want to provide the Board of Regents members with some background regarding the interaction between the Utah System of Higher Education (USHE) and State Government as it relates to facilities on our campuses

Following the overview, we will get into the institutional Capital Facilities building request presentations, to be presented by campus leaders.

USHE institutions look to the State to support campus facilities needs in several ways. We are going to look briefly at a few of those ways over the next half hour.

Three (3) areas that we will review briefly:

- Capital Development – major construction projects
- Operation and Maintenance (O&M) – or operational, fuel & power, and employee salary dollars to support buildings.
- Capital Improvements – or “smaller” but critically important construction-related projects as a value of \$2.5M or less.

Presenters:

Dr. Greg Stauffer, OCHE – overview of the system role regarding facilities at USHE institutions.

Richard Amon, Office of the Legislative Fiscal Analyst – Operation & Maintenance funding for State buildings.

Kurt Baxter, Division of Facilities & Construction Management – capital improvement allocation process

Dr. Greg Stauffer, OCHE – review of Q&P’s strengths and weaknesses.

Regent Responsibilities:

Regent Policy R710, *Capital Facilities*, outlines the considerable responsibilities of the Board of Regents that apply to oversight of capital facilities at the USHE campuses. The list includes:

- Campus facilities master plans
- Programmatic planning
- Project requests for state appropriated funds
- Projects funded from non-state funds
- O&M requests for state and non-state funded projects
- Leased space

The Regents have a **stewardship responsibility** for institutional facilities and the management of these facilities in trust for the future. This responsibility needs to be discharged carefully in an environment that includes:

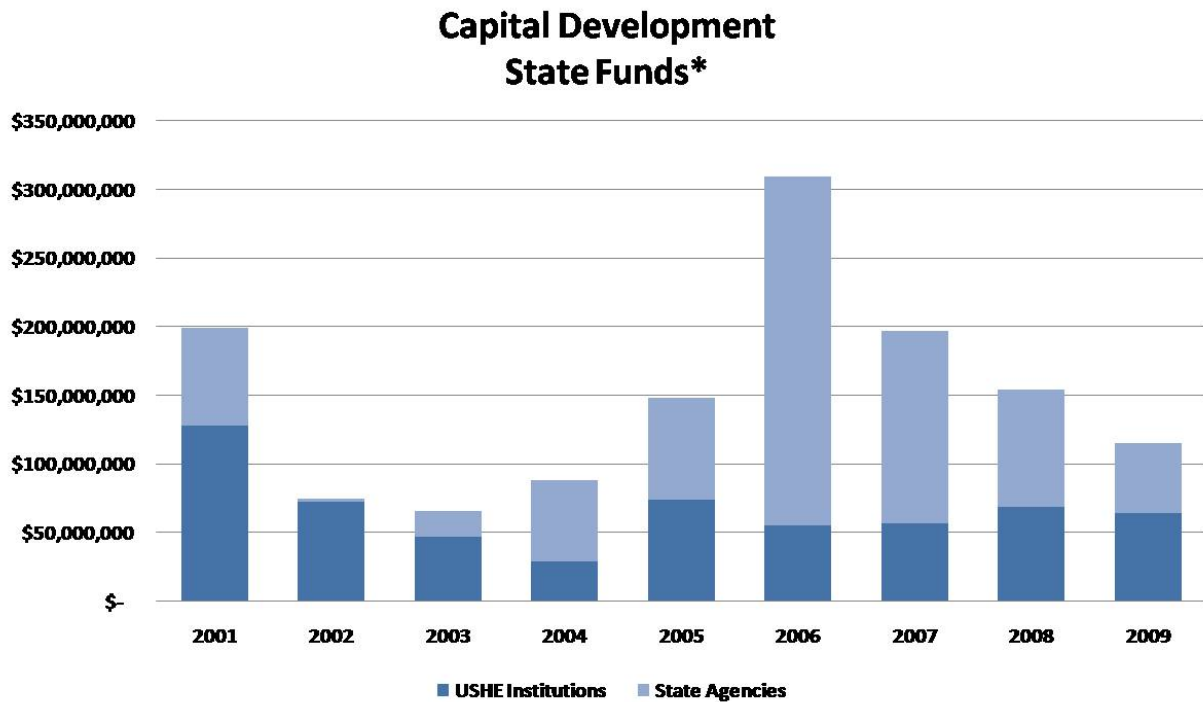
- Significant growth expectations in the USHE system
- Aging Facilities and the space renewal needs that accompany them
- Pedagogical adjustments to teaching methods which result in redesigned space requirements
- Technological change and complexities which, again, result in need for redesigned spaces
- Capital deficits and O&M shortfalls that make facilities resource management more challenging.

Capital Development Funding

Annually, the State provides USHE with some level of State-funded support for acquisition and/or construction of facilities. While the funds provided are often perceived as insufficient, they nonetheless are significant in amount.

The chart below shows the funds provided over the past nine years. Higher Education's share has ranged from \$50 million to \$100 million per year.

Appropriated Capital Development Funds



Of some concern is the fact that the percentage share of state building dollars going to Higher Education has declined in recent years. While there will always be ongoing discussions among institutions relative to which project should be the highest priority, the total allocation to USHE for capital construction should be an ongoing concern for all – both because of aging facilities and due to the need to accommodate growing institutions and programs.

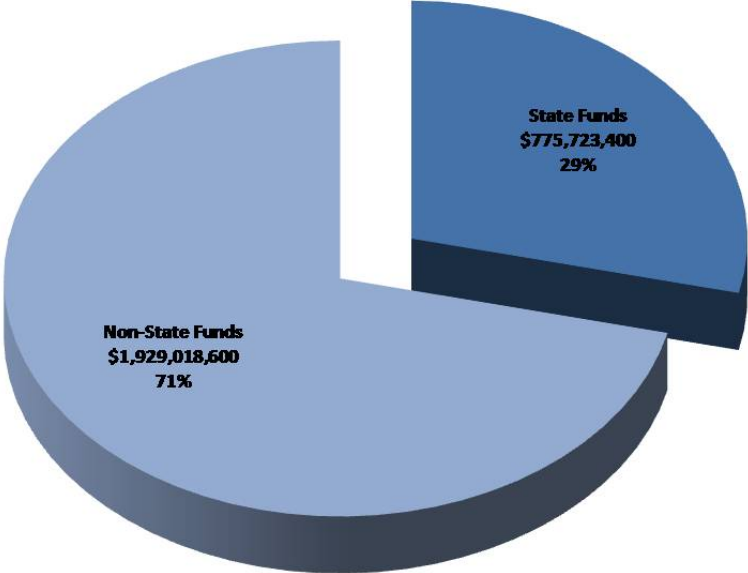
Another issue of note is the importance of inflation. Ten years ago, \$50 million might provide for several projects; today, however those funds can be consumed by a single project.

Because of the need for more facilities construction than the State can provide from its own resources alone, USHE institutions often bring “non-state dollars” to the table. In fact, the **majority** of construction dollars going into USHE buildings now come from non-state sources.

The Q&P facilities prioritization process, to be described later in this document, has a key component; a scoring category called “other funds”. Other funds are a critically important revenue source for building

construction projects within the USHE. As is detailed in the following graphics, nearly three-quarters of the funding applied to building projects in USHE, come from these non-state funding sources.

USHE Capital Funding Mix

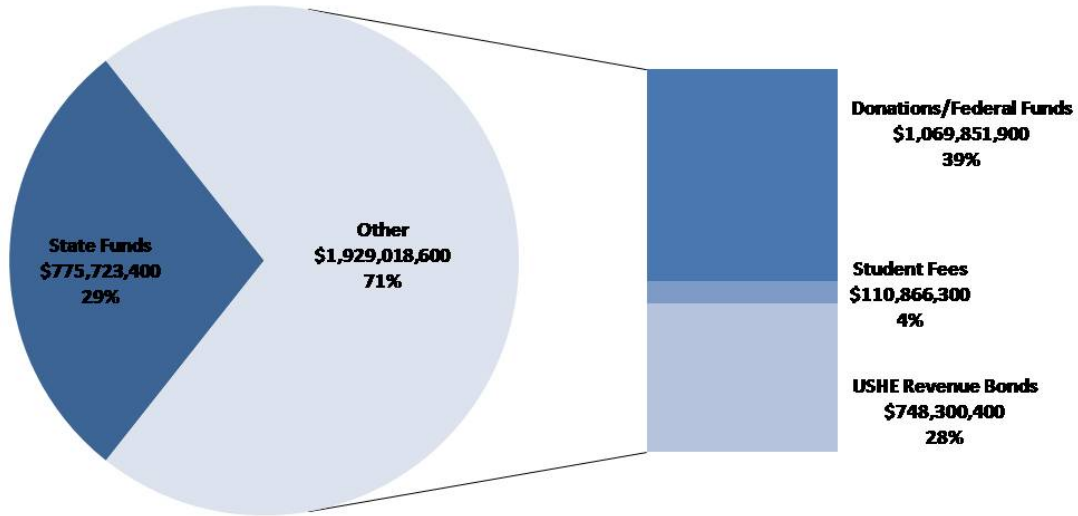


***State funds include tax funds, G.O. Bonds and State Revenue Bonds
Data are through 2008***

The chart below displays in more detail the non-State funds portion of capital funding. Donations and USHE Revenue Bonds make up the majority of the funds; student fees also provide a small portion of these funds.

USHE Capital Funding by Source

1996-2008

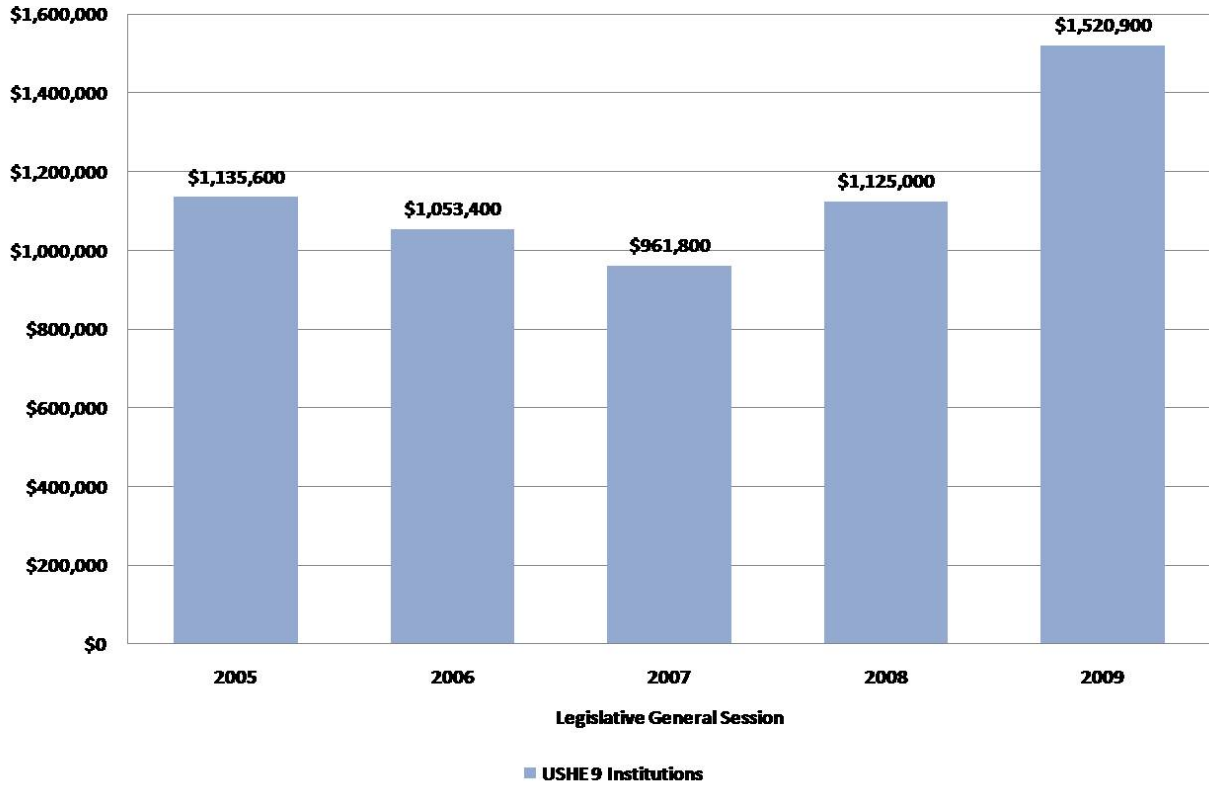


Operations & Maintenance (O&M)

The State Legislature recognizes the need for supporting O&M costs associated with bringing new facilities online. This recognition of need results in funds annually allocated to USHE institutions as buildings are completed; funds critically needed to operate the facilities. Typically, between \$1 and \$2 million annually comes to the System to cover new operation and maintenance needs.

USHE works closely with the Division of Facilities & Construction Management (DFCM), the Legislative Fiscal Analyst (LFA) and the State Building Board to provide adequate (initial) operation and maintenance coverage for new buildings. The following chart shows the funds provided by the State from 2005 to 2009 for USHE:

Appropriated O & M for USHE 9 Institutions



Capital Improvement Funding

Legislative funding for smaller scale campus infrastructure and renovation projects is also provided by the State to USHE institutions. Funding for USHE institutions results in \$10's of millions of dollars annually. USHE appreciates the Legislature, DFCM and the State Building Board for their fairness and foresight in funding this important need.

The Capital Improvement Funding program has been very helpful in campus planning and prioritization of small projects over several years of funding cycles.

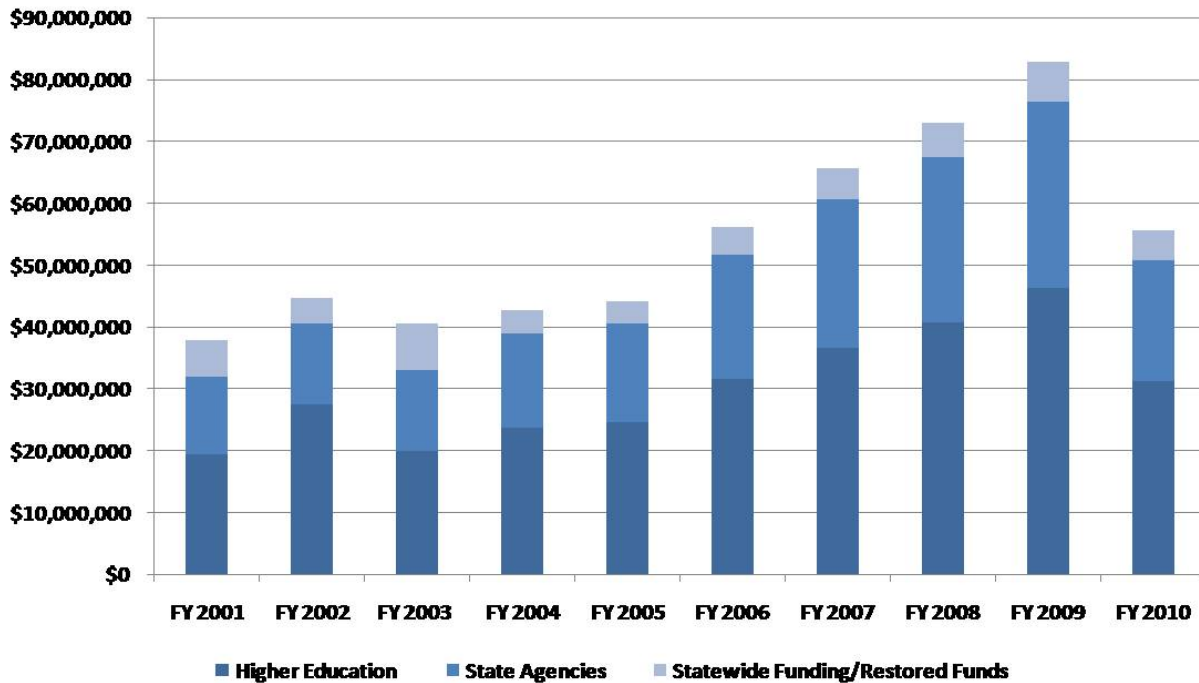
Statute requires that each year an allocation equivalent to 1.1% of building replacement cost be provided to the Capital Improvement Fund. A statutorily granted exception is when there exists a deficit in the General Fund. In these years, the allocation amount – by statute – drops to a 0.9% of replacement value. Fiscal year 2009 and 2010 went even further, discounting to 0.9% for these two years.

With fiscal year 2011 at risk of similar action being taken, these continued funding cuts represent a significant risk to USHE institution's long-term ability to maintain campus facilities. USHE will work with the State to return to a 1.1% fund allocation.

Appropriated Capital Improvements

FY 2001 - FY 2009

Source: Utah State Building Board Annual Allocations



Qualification and Prioritization

The Qualification and Prioritization (Q&P) process is currently used by the State Board of Regents to **assist** in evaluating capital development project requests. The process is quite quantitative, though the assumptions upon which the model is run are somewhat subjective and will impact the outcome of the formulaic results.

“The Q&P is designed to focus on what USHE values – building appropriate space, meeting rehabilitation and growth needs on campus, honoring donations, and addressing life safety... It provides a consistent measurement that can be compared across years and is based on a formula available to every institution.” - Former Commissioner Richard Kendall

Importantly, the Q&P is specifically *“not designed to replace Regental deliberations which take into account other factors which are not quantifiable but nevertheless important, such as the current funding climate, political considerations, and acceptability of certain kinds of projects.”* Policy R741

The current year’s recommended rankings attempt to follow the policy intent as outlined in policy R741 – overlaying the formulaic Q&P results with Regental deliberations and consideration of other critically important factors. Additionally, ongoing attempts are begin made to balance “caring for what we have” with “caring for what we need”

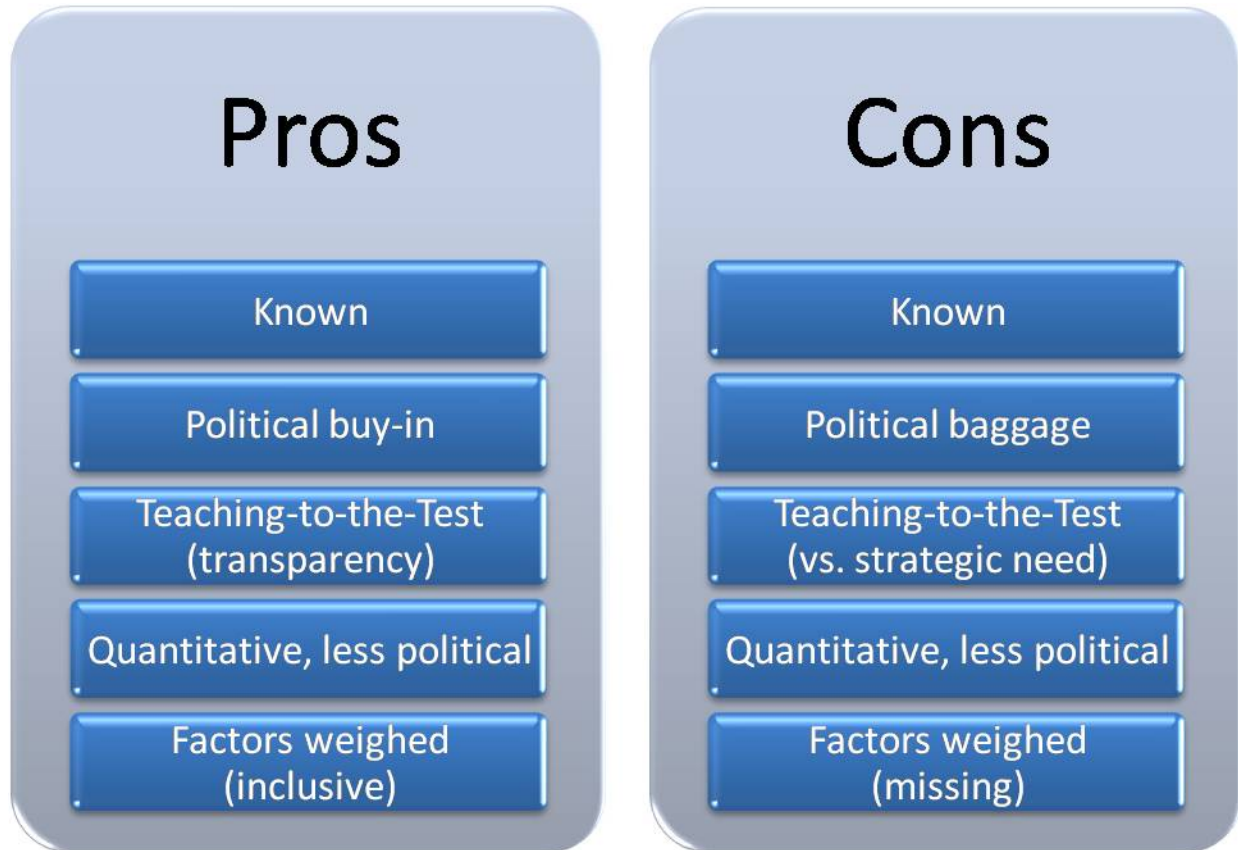
In military terms, the Q&P is a “target-rich” environment, with many fronts on which it might be attacked.

The following are issues that need to be addressed in our long-term planning approaches:

- **Building in advance of student demand** (DSC model)
- **Leased space** (not counted in Q score, but generating FTE. Perhaps leased space should be counted as part of inventory, in that students in leased space are not counted)
- **Land purchases & specialized spaces** (wind tunnels, greenhouses, etc.) – not Q&P space
- **Rewarding time in queue** – bonus points for a project that hasn’t received funding in a few years. Pro – gets funding, Con – gets funding! (maybe shouldn’t)
- **Other funds points** – Non-state funds are very significant in USHE, therefore value in recognizing and rewarding donated funds. However, the ability to fund raise varies by institutional type. Also, follow-up issue: verification of donated funds received and ramifications when they are not
- **Branch campuses** – can be negatively impacted by home campus. May have high demand branch need, but doesn’t match up well with home campus space inventory and enrollments
- **Remote site enrollments** – (Distance Ed / Concurrent Enrollment students) – if over-represented, can result in Q scores that allow building to be built which otherwise wouldn’t be if only students physically on the campus are counted.
- **Campus infrastructure projects** – struggle to be recognized
- **Geographic location and expectations** – should there be different studies for urban settings vs. rural: greater possibility of longer days and shared spaces?
- **Critical needs** – nursing, teacher education, engineering
- **Q points & gap** – “Graduated scale”? Tweaking may shift emphasis to new buildings

Like any tool, the Q&P will be better for some jobs than others. It is better than no tool at all and it appropriately looks at square footage, building costs, enrollments, donations, etc.

Q&P – Pros & Cons



Though the Q&P is a helpful tool, a decade or more of complaints from stakeholders – who often, understandably, are not pleased with a tool that provided inadequate information in their particular circumstance – may have diminished its value in promoting USHE building projects and Regent priority rankings of the same.

Q&P is, by policy, not the official USHE ranking – only a starting point. All too often, it has become the final ranking. When it is utilized as a starting point only, with Regental deliberations serving as the capstone to the prioritization process, the Q&P tool has greater potential for success.

Of Value, the Q&P process is Open and Known. It is of value in avoiding **some** of the political tug-of-war that otherwise might occur to an even greater extent. However, behind the Q&P quantitative model are a fair number of qualitative assumptions worthy of Board consideration.

However, project needs in a whole host of situations aren't well scored within the Q&P: Projects designed for mission change, for older campuses where space needs are misaligned with Q&P scores, projects on smaller campuses where even significant growth can't score well on the Q when compared

to larger institutions, projects for special circumstances, infrastructure, etc. – all are not seated well within the Q&P system.

Lots of thoughtful suggestions have come forward – many mirroring suggestions previously made over the past decade and a half, and a couple of fresh ideas have been made as well. Lots of talented folks are available to pull together and create a task force focused on reviewing the Regents’ prioritization process.

Coordination and Interaction with State Government

Richard Amon, Office of the Legislative Fiscal Analyst and Kurt Baxter, Division of Facilities Construction and Management made presentations regarding operations and maintenance (O&M) in State building and Capital Improvement Allocations. Copies of the materials they distributed are attached.

Operations and Maintenance (O&M) in State Buildings

Richard Amon, Fiscal Analyst

- Operations and Maintenance (O&M) refers to the management of capital facilities to ensure that those facilities perform the function for which they were constructed.
- Operations and Maintenance may include:
 - Custodial services
 - Preventative and routine maintenance on critical building systems
 - Energy conservation and utilities costs
 - Security and site maintenance
- O&M does not include capital improvements (remodeling, alteration, repair, or replacement projects costing less than \$2.5 million).
- The legislature funds O&M costs differently depending on the source of funding for the building project. The Legislature follows similar principles as policy R-710 (4.5.6).
 - State funded projects receive the ongoing cost of O&M appropriated to the recipient agency in the year the project receives funds from the Legislature. The Legislature then removes the funding one-time each year until construction ends and the building is occupied (when the O&M will be needed).
 - Non-state funded projects may receive state funding for O&M if the project is explicitly approved by the Legislature and given explicit eligibility to receive state funded O&M. Funding for O&M is not guaranteed even with such eligibility.
 - Non-state funded projects constructed without the approval of the Legislature are not eligible for any state funded O&M.
 - Non-state funded projects approved by the Legislature but expressly forbidden from receiving state funds may not request state funded O&M.
- The Division of Facilities, Construction and Management works with requesting agencies and the Legislative Fiscal Analyst to calculate the O&M for new buildings.
 - Prior to FY 2009 the parties calculated O&M based on a formula approved in 2003 by the Board of Regents and the State Building Board (see back of page).
 - Varying percentages are used to calculate the maintenance value for five different building types, a standard percentage is used to calculate the operations value, and varying costs based on square footage for the five different building types are used to calculate fuel and power costs.
 - In FY 2009 O&M rates calculated using the formula were much higher than previous years and agency request calculated by DFCM (see back of page). Part of the difference was due to large escalations in construction costs.
 - DFCM and the LFA chose to create a new formula beginning in FY 09 based on the average calculated O&M and increases in the consumer price index.
- The Legislature may choose to fund a different O&M number.
- Typical O&M consists of approximately 50% personnel; 34% utilities; 16% other.
 - Personnel receive annual cost-of-living increases approved by the Legislature.

Operations and Maintenance Formula (FY07-08)

Building Type	Maintenance/ Repair	Operations	Fuel & Power	Total Dollars Requested
Classroom/ Office	1.30% x (CRV) +	0.95% x (CRV) +	\$1.65 x (sq ft) =	\$\$\$\$\$
Library/ Student Center	1.45% x (CRV) +	0.95% x (CRV) +	\$1.65 x (sq ft) =	\$\$\$\$\$
Service/ Shop/ Vocational	1.60% x (CRV) +	0.95% x (CRV) +	\$2.64 x (sq ft) =	\$\$\$\$\$
Physical Education	1.65% x (CRV) +	0.95% x (CRV) +	\$1.19 x (sq ft) =	\$\$\$\$\$
Laboratory	1.35% x (CRV) +	0.95% x (CRV) +	\$3.30 x (sq ft) =	\$\$\$\$\$

CRV (Current Replacement Value) is the total cost of construction excluding design fees and furnishings

FY 2009 O&M Funding Formula

Institution	Project	O&M Using Fully Escalated	O&M Using Construction	O&M Using Rates
		Construction Cost as Outlined in Formula	Cost Estimated Without Escalation	Agreed to by DFCM & LFA
UCAT	MATC: North Ut. Co. Campus Bldg	\$7.10	\$6.40	\$6.71
USU	Ag Science and Classroom Bldg	\$9.47	\$8.53	\$7.52
UCAT	OWATC Health Tech	\$8.72	\$7.86	\$6.83
U of U	School of Business Replacement/Exp	\$10.82	\$9.75	\$7.00
SLCC	South City Campus Digital Design	\$5.98	\$5.39	\$7.03
UVSC	Science/Health Building Addition	\$9.16	\$8.25	\$7.56
CEU	Fine/Performing Arts Ctr Replacement	\$8.82	\$7.95	\$7.00
SUU	Science Bldg Addition	\$9.20	\$8.29	\$7.70
WSU	Davis Professional Programs Bldg/Plant	\$8.11	\$7.31	\$7.00
UCAT	SWATC: Health Science/Info Tech Bldg	\$7.71	\$6.95	\$6.85
Dixie	Centennial Building	\$7.78	\$7.01	\$7.01
Average		\$8.45	\$7.61	\$7.11

Agency	Project	O&M Request by Agencies
Multi-Agency	Salt Lake Gov Office Bldg #1 (DHS)	\$4.76
Corrections	Gunnison Prison Expansion	\$5.80
DHS	State Hsppt: Demolish MS Bldg/Const New Bldg	\$6.50
UMNH	New Museum Building	\$7.00
Courts	Ogden Juvenile Court	\$4.77
DNR	Southern Regional Office Expansion	\$4.90
DTS	Richfield Alternate Data Center Expansion	\$4.50
Multi-Agency	Richfield Regional Center	\$5.17
DHS	Juvenile Justice: Weber County Detention Ctr	\$5.62
Agriculture	Unified Lab (Module #2)	\$6.71
Education	Deaf/Blind Utah County School	\$5.00
Public Safety	Unified Lab (Module #3)	\$6.71
Average		\$5.62

Operations and Maintenance Formula (FY09-10)

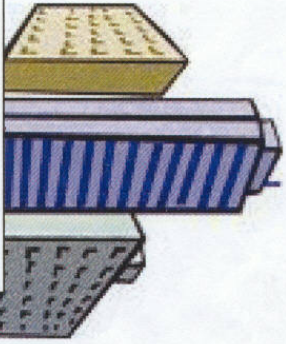
	FY 2009 Rates	CPI - 5/1/2008	FY 2010 Rates
Classroom/ Office	\$7.00	5.4%	\$7.38
Library/ Student Center	\$6.18	5.4%	\$6.51
Service/ Shop/ Vocational	\$7.20	5.4%	\$7.59
Laboratory	\$8.00	5.4%	\$8.43
Physical Education	\$6.15	5.4%	\$6.48
UCAT Facilities	\$6.50	5.4%	\$6.85

Consumer Price Index (CPI) for the last 12 months ended August 2008 is 5.4%

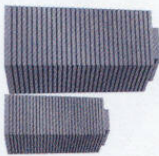
Capital Improvement Allocation

Looking at the "Big Picture"

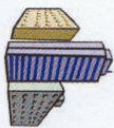
Replacement cost of all State Buildings = \$7.1 Billion.



XYZ University - \$450 mil. facilities.



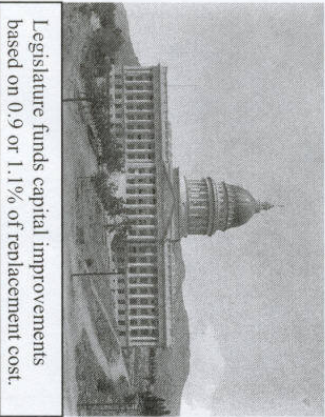
Subtract Auxiliary Buildings (\$25 mil.)



Net Replacement cost for XYZ University = \$425 mil.



How big is the pot?



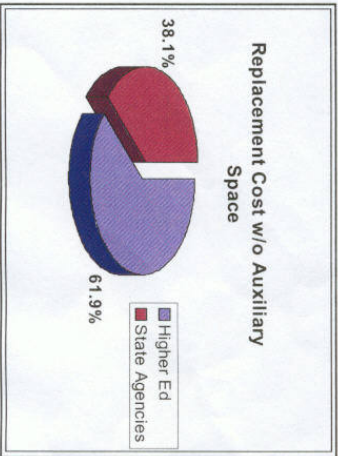
Legislature funds capital improvements based on 0.9 or 1.1% of replacement cost.

$$\begin{array}{r}
 \$7,100,000,000 \\
 \times \quad 0.9\% \\
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 \$63,900,000
 \end{array}
 \quad \text{OR} \quad
 \begin{array}{r}
 \$7,100,000,000 \\
 \times \quad 1.1\% \\
 \hline
 \$78,100,000
 \end{array}$$

XYZ University share = 7.1Bil. / 425 million = 6%
 OR
 \$3.8 million if funding @ 0.9%
 OR
 \$4.7 million if funding @ 1.1%

Higher Ed and Agencies

Higher Ed v. State Agency		Facility Replacement Cost	
Higher Ed	State Agencies	Higher Ed	State Agencies
with Auxiliary	66.3%	with Auxiliary	33.7%
w/o Auxiliary	61.9%	w/o Auxiliary	38.1%



Capital Improvement Funding History			
FY2006 - FY2010			
Total Higher Education	177,220,316	61%	
Total State Agencies	115,192,097	39%	