BACKGROUND

Minnesota State Colleges and Universities expects to present a Fiscal Year 2006-2011 capital budget plan to the Minnesota Department of Finance, Governor and Legislature in June 2005, consistent with timing for the state’s anticipated capital bonding program for the 2006 legislative session. As part of that plan, specific project recommendations will be submitted only for the FY2006-2007 bonding bill. Projects recommended for the later years of FY2008-2011 will serve as "points of departure" planning guides for future state bonding requests.

At the time of this writing, the 2004 Legislative Session concluded without passage of a bonding bill. However, a Special Session may yet be called by the Governor in order to complete unfinished business, including a bonding bill. Absent a Special Session, the Governor and Legislature could decide to bring up bonding proposals in the 2005 session or simply wait until the 2006 session. Accordingly, it is recommended that the Board reconfirm its support of the 2004 capital budget request and project priority list for presentation at the next opportunity to the Legislature, even as late as the 2006 session, subject to modification only in the case of extenuating circumstances and as approved by the Board.

However, it is also imperative that colleges and universities continue capital planning for the future. Projects for this 2006-2011 capital budget should therefore be prepared assuming that the 2004 projects will have been authorized and funded sometime prior to the 2006 legislative session.

In preparing the 2004-2009 capital budget, the Board of Trustees adopted a capital program that conformed to the Minnesota State Colleges and Universities Strategic Plan “Designing the Future”. Although the Strategic Plan is currently being updated, it is expected the plan’s Guiding Principles will be maintained: student focus, community success and stewardship. The Plan’s four Strategic Directions are expected to be reaffirmed as well: increase access and opportunity; expand high quality learning programs and services; strengthen community development and economic vitality; and fully integrate the system.

Components of the 2004-2009 capital budget plan included funding level recommendations of $275 million for 2004 and $250 million for each of the succeeding biennia, and a prioritization to reflect the Board’s desire to preserve and maintain existing facilities, and address demonstrated facilities needs of the colleges and universities. Important priorities included life safety and asset preservation; program enhancement, particularly in the area of science instruction; facility revitalization or replacement; and collaborative ventures. Of the $275 million budget in 2004, $100 million was specifically requested for the Higher Education Asset Preservation and Replacement (HEAPR) program. The 2004-2009 plan also featured significant follow through
funding of previously phased construction projects and new construction dollars for those projects funded for design in 2003.

DEFINITIONS

- **Capital project:** A project for construction, renovation, major repair/replacement, and/or land acquisition, such that its total cost is “capitalized” on the books of the college or university. Capital projects are normally authorized and funded by the state legislature, through the sale of state general obligation bonds. Bonds are backed by the “full faith and credit” of the state, with interest based on the state’s current bond rating, and are repaid over 20 years. A capital project includes all costs associated with delivery of that project: design, construction, demolition, testing, inspection, furniture and furnishings, equipment, land acquisition, and project management.

- **Debt service:** Payments made by the state for principal, interest and issuance costs for the 20-year general obligation bonds. Minnesota State Colleges and Universities, and the University of Minnesota, pay one-third of the debt service on authorized projects except for HEAPR. One-half of the assigned debt service (one-sixth of the total) is assigned to the college or university benefiting from the project. One-sixth is spread over the system as a whole.

- **Predesign Report:** An element of project planning required by statute to define the project scope, cost and schedule. Predesigns are most commonly funded by the respective college or university from their operating budgets and generally cost less than 0.5% of the total project value. A professional architect/engineering firm should prepare the predesign report.

- **Design:** The process that takes the project scope and budget as defined in the predesign and creates the architectural and engineering specifications and drawings on which a construction contractor will bid and perform the work. The design process normally has three phases: schematic design – the phase during which the project evolves as to siting, size, functionality, materials, and program placement; design development – the phase during which the architectural and engineering details emerge; and construction drawings – the final phase where specific drawings, specifications, details and instructions are provided to define the construction. Cost estimates are prepared, analyzed and adjusted during all phases. Design of state buildings and other facilities must be accomplished by architects and engineers licensed to practice in Minnesota.

- **Construction:** The phase of the project where construction trades build the new facility, and renovate or repair the existing facility. Construction is normally accomplished through one contract with one general contractor, thereby minimizing risk to the owner. However, two or more contracts may be used to facilitate progress, e.g. an early contract for asbestos removal, site work and utilities; or a later contract for a parking lot, landscaping, or ancillary items able to be funded through cost savings over the life of the project. Construction normally represents about 70% of the total project cost.
• **Furniture, fixtures and equipment (FF&E):** The outfitting phase of the project. State policy allows the purchase of FF&E funded by bond funds when included in a capital project. Most FF&E is purchased by the college or university using recommendations from the project architect, MinnCor (prison industries), or local preferences and sources. Computers and other technology equipment may also be procured this way as part of the project.

• **HEAPR: Higher Education Asset Preservation and Replacement.** The HEAPR program, defined in Minnesota Statutes Chapter 135A.046, focuses on facilities maintenance and repair needs that are unable to be funded through the campus operating budget. HEAPR also includes funding for compliance with life safety and building codes; Americans with Disabilities Act (ADA) requirements; hazardous material abatement and indoor air quality improvements; and facilities renewal in support of existing programs. As a part of the capital budget, HEAPR is usually expressed as a total, lump-sum requirement for appropriation purposes with a detailed campus-by-campus project list provided as backup information.

• **Space utilization:** A measure of how efficiently space is used as expressed by (1) square feet per FYE; (2) hours of classroom usage; and (3) mathematical modeling of assignable square feet to student FYE. The result, in percentages, indicates space deficit (campus needing more classrooms, labs, offices, etc.) or space surplus (excess square footage for the amount of student FYE). Requires detailed space inventory (number and size of classrooms and number of seats), current and projected enrollment data, and class scheduling data.

• **Reinvestment:** The amount of funds that must be spent on an existing facility each year to preserve its physical state of readiness and programmatic value. All building components have a predicted life span and must be replaced and/or refreshed periodically. To not reinvest is to “defer” and thus build a backlog of maintenance, repair and renewal.

• **Deferred Maintenance and Repair Backlog:** The existing (or extrapolated) estimated costs associated with major maintenance, repair and replacement requirements for buildings, grounds, fixed equipment and infrastructure. The total equals the amount of funding that is needed for a facility or entire campus to be “whole and at current value.” Does not include work that is associated with program or academic improvements.

• **Facility Condition Index (FCI):** A measure of the physical condition of a building, with the value of deferred maintenance and repair divided by the replacement plant value. The Association of Higher Education Facilities Officers (APPA) indicates an FCI less than 5% is considered “good;” 5% to 10% as “fair;” and over 10% as “poor.” The 1998-99 Condition Assessment Report of academic buildings indicated an FCI of 17% system wide.

• **Operating Costs:** In context with the capital budget, projects must consider the impact on the campus operating budget. Operating costs include utilities, custodial care, maintenance and repair, debt service and staff.
2006-2011 CAPITAL BUDGET PLAN

The 2006-2011 capital budget will continue to align with the system Strategic Plan “Designing the Future” including its three guiding principles and four strategic directions. Further, integrated academic, technology, finance and facilities plans of the institutions must serve as the foundation on which capital priorities are evaluated. These plans, addressing each institution’s vision for future academic and student services needs, should demonstrate the facilities requirements in support of the academic mission.

Since a major initiative was launched in 1998, the Board of Trustees has reviewed master facilities plans from all institutions. The 2004 capital budget was the first system capital budget to require completed master academic and facilities plans. Master facilities plans that were completed more than five years ago are now in the formal update stage and will be presented to and approved by the Office of Chancellor. Eight institutions are scheduled for Office of Chancellor review and approval in 2004.

The guidelines presented herein are a continuation of those used in prior capital budget plans with a strong focus on asset preservation and facility renewal. The 2006-2011 capital budget guidelines further respond to direction from the Board and Chancellor relative to updating and modernizing the condition of all facilities throughout the system. Limited new construction will be considered where necessary to address programmatic and enrollment growth needs. For the first time in the capital budget, there will be incentive to “right size” campuses with funds for partial demolition and modernization of remaining space.

Additional emphasis in this capital budget will be for property acquisition. This will reflect the Boards concern for a strategic, high visibility project for property acquisition to address community encroachment adjacent to campus; campus expansion needs; and future academic expansion sites as envisioned in master facilities plans.

In order to complete the activities necessary to submit a 2006-2011 capital budget for consideration by the Governor and Legislature in 2006, a work plan has been developed and is presented in Attachment A. The core element of this process is the identification of capital needs by each college and university, development of the required presage and project description documents, and submission to the Chancellor and Board for consideration. Projects are driven by campus academic and student support needs. Rarely are projects initiated at the system level, although considerable technical support is provided by Office of the Chancellor staff and knowledgeable consultants.

CAPITAL BUDGET GUIDELINES

1. **Strategic Plan:** Capital projects must reflect the values expressed in the system’s Strategic Plan; principles of student focus, community success and stewardship along with strategic directions to increase access and opportunity; expand high-quality learning programs and services; strengthen community development and economic vitality; and fully integrate the system.
2. **Integrated Plan:**

   a. Capital projects must support the institution’s academic plan; reflect the “core” of the institution’s academic purpose; and link to granting of degrees, diplomas and certificates.

   b. Capital projects that primarily address improved student services must clearly demonstrate current facilities’ deficiencies and the impact on level of service provided; and show how the project will improve the core academic value or service, student retention, efficiency, reduce operating costs, etc.

   c. Projects for other than core academic or student services improvements must also clearly demonstrate current facilities’ deficiencies and the impact on operating performance of the institution and its students, faculty, staff, and the general public.

3. **State’s economy and workforce development:** Projects should be specific as to how they will address the regional or state’s economy and workforce needs.

4. **Partnerships and collaborations:** Projects should emphasize corporate, government, workforce, community and other higher education partnerships and collaborations. Demonstrate that contributions are available for construction, and other gifts of equipment, furnishings, etc.

5. **Planning Process:** Projects must be supported in the campus Master Facilities Plan.

   a. Predesign reports must be complete, submitted and approved by the Office of the Chancellor.

   b. Projects that have been phased and/or received previous support by the Board of Trustees or Legislature will receive preference. See also item 11 below.

6. **Reinvestment:** Individual projects and the system-wide capital budget must reflect a strategy of reinvesting in existing physical plant. Projects must emphasize reducing deferred maintenance and improving Facilities Condition Index (FCI); as well as promote adaptive reuse of existing space. Projects must “take care of what we already have.”

Construction of new space (new square footage) is discouraged except where the need can be clearly demonstrated through space utilization and efficiency data, and/or other compelling rationale.

7. **Space Utilization:** A system wide Space Utilization study was performed and published in December 2001. This report was a snapshot of space use at the time, and provided useful space inventory and utilization data showing space deficits (campus needing more classrooms, labs, etc.) and space surpluses (excess space). The report was also based on enrollments at that time. While extremely useful in building a knowledge base regarding almost 20 million square feet of academic space in the system, there were a number of issues with this report. The relatively large amount of space initially constructed in the Technical Colleges by school districts; the inability of the system’s data base to accurately capture all space use; and the rapid enrollment
growth that occurred in areas of population growth were parameters affecting the report’s results. It is also not possible to update the report without additional consultant assistance and expense. Consequently, this report will not be directly used in this capital plan except as a benchmark of general conditions.

Campuses will now use actual real time data of room use and number of seats filled available from the ISRS Facilities Module through BRIO reporting techniques. This data includes the number of classrooms/labs in use, times, days and seats in use. By analysis, this data will yield options to either improve use of current space or justify new space.

The Office of the Chancellor will provide templates to colleges and universities to accurately retrieve and display this level of data.

8. Campus right-sizing: Projects may be submitted to demolish excess square footage and/or underutilized space with simultaneous remodeling to improve efficiency of space and operating budgets.

9. Property acquisition: A strategic, high visibility campus-specific project is envisioned for property acquisition around the system to address community encroachment adjacent to campus; campus expansion needs; and future academic expansion sites as envisioned in master facilities plans. Acquisition costs must be supported by appraisals or other current real estate data.

10. Operating costs: Projects must confirm college and university ability to fund operating costs, including existing and proposed debt. Detailed information on operating cost impacts, along with explanation on how to finance the expected costs caused by a project must be provided.

11. Evaluation: Technical Advisory Teams will be convened. A scoring process will lead to quartile or quintile ranking, but precise scores will not be reported. It is expected that the Board of Trustees will hold two to three public hearings.

   a. Campuses may choose to engage an architect through the State Designer Selection Board to begin the design process, perhaps through schematic design. No preference will be given in the evaluation process in the case of new projects not seen by the Board and/or legislature in prior capital budgets.

12. Design and construction standards: Capital projects will demonstrate the elements of sustainable design; compliance with state energy requirements; and adherence to system design and construction standards.

13. Initiatives: As in prior capital budgets, several projects will be proposed that consolidate many smaller projects at campuses statewide. Initiatives for renovation or construction of (a) science labs; (b) classrooms, laboratories and academic spaces that directly impact workforce training and education; and (c) program consolidation are planned. A demolition initiative will also be proposed separate from the “right sizing” initiative discussed above. Each campus initiative submittal will be evaluated by the Technical Advisory Team on the merits of that submittal for priority ranking and inclusion in the Initiatives grouping.
HIGHER EDUCATION ASSET PRESERVATION AND REPLACEMENT (HEAPR)

An increasingly important component of capital budgets in the last three biennia has been the request for major repair and replacement funding under the Higher Education Asset Preservation and Repair (HEAPR) program. The FY2000, FY2002 and FY2004 capital requests for HEAPR were $100 million for each biennium. This is in line with the top priority of the Board of Trustees for long-term stewardship of the state's investment in existing facilities.

Prior HEAPR programs focused heavily on roof repair and replacement; mechanical and electrical infrastructure repair and replacement; general asset preservation; and improvements for fire and life safety. Projects were developed based on an increased awareness of campus administrations regarding the need to clearly identify and prioritize repair and renewal requirements as well as the knowledge base provided by the 1998-99 system wide Facilities Condition Assessment report, subsequent Office of Chancellor studies, and campus input entered into the ISRS Facilities Module. The FY2006 HEAPR component of the capital budget represents the third budget informed by the Facilities Module.

The 1998-99 Facilities Condition Assessment identified a $498 million (1998 dollars) backlog of repair, maintenance and renewal work across all 53 campuses. While substantial HEAPR and capital funding has been provided in prior capital bonding appropriations, it has been insufficient, even when coupled to the annual operating budget and emphasis on capital project renewal, to adequately maintain campus facilities around the state or to reverse a growing backlog of needed repair and renewal. Indeed, it is estimated that the backlog is now in excess of $670 million. Should a 2004 bonding bill not be enacted, a growth in this backlog up to an additional $200 million is clearly possible. The legislature supported a HEAPR appropriation of $60 million in FY2002 and substantial renovation work in both 2002 and 2003. This will make substantial progress towards stabilizing the backlog; however, continued high level funding for HEAPR is necessary in the years ahead to bring the backlog under control. Accordingly, the 2006 capital budget for HEAPR will once again recommend a funding amount of at least $100 million systemwide.

The 2006-2011 HEAPR guidelines further respond to direction from the Board and Chancellor relative to a continued assessment of the condition of physical plant statewide; central management of a roof repair and replacement program (campuses are responsible for annual maintenance and minor repair, and roof project prioritization); analysis of base line data and life expectancy on mechanical and electrical infrastructure systems; analysis of fire, life safety and code compliance issues; allocation of annual operating funds specifically towards physical plant maintenance and repair; and timely delivery of projects funded from the capital HEAPR appropriation.

HEAPR BUDGET GUIDELINES

The 2006 HEAPR program will follow the Board's long established principles for preserving and improving the physical plant infrastructure to support quality education. It will also align with the strategic goal of stewardship of resources. Specifically, the HEAPR program will:
1. Focus on preservation and renewal to protect the state's investment in facilities, and to offer high quality, safe, attractive facilities where students can succeed.

2. Consider life safety, environmental impacts, energy conservation, operation and maintenance costs, and accessibility issues in context with existing campus resources.

3. Maximize functionality of the facility to accommodate current academic programs.

4. Provide an infrastructure backbone for reliable utility services for all campus activities and to support technology to enhance teaching and learning.

5. Partner with college and university operating budget efforts in maintenance of facilities.

6. Per statute, comply with one or more of the following: code compliance, including health and safety; ADA requirements; hazardous material abatement; access improvement; air quality improvement; or building or infrastructure repairs necessary to preserve the interior and exterior of existing buildings; and renewal to support existing programs.

In addition to the above, individual HEAPR projects must be:

1. Over $25,000 in total cost.

2. Planned to guarantee construction delivery within 30 months of June 2006 (encumbrance of all funds by June 30, 2006; expenditure of all funds by December 31, 2006).

3. Identified in an updated Facilities Condition Assessment report for the respective campus. Each individual campus HEAPR request must address the list of deferred maintenance items listed in the ISRS Facilities Condition Module. A copy of the updated assessment and the project scenario clearly identifying the applicable HEAPR items must be attached to the request.

Priority will be given to the following HEAPR projects:

**Roofs:** Each campus should include roofs identified by their campus roof management report as requiring repair or replacement in 0-4 years. The Office of the Chancellor will determine a reasonable capital roof investment program that matches available state contractor resources for delivery of the program within a 30-month timeframe. Roof requests from campuses will be organized into a 5-year roof replacement budget plan.

**Major Mechanical and Electrical System Repair and Replacement:** Many HEAPR items are not “deferred maintenance” inasmuch as they are planned replacement or repair of items that have reached the end of their useful life. Many large HVAC (heating, ventilating and air conditioning) and electrical distribution systems are nearing or exceeding 40 years of age and require replacement. For this category, all mechanical and electrical infrastructure project requests over $1 million must be accompanied by a completed preliminary engineering report funded by the institution. Full engineering design should be completed by institutions using
operating or advance HEAPR design funds prior to February 2005 for all major infrastructure projects over $1 million.

In addition to the priority areas noted above, the HEAPR program will be structured, to the extent possible, to provide all institutions an equitable funding level based on the combined physical size (square footage) of campus buildings. This recognizes that campus repair and renewal funding should be based on an annual reinvestment rate between 2 and 3 percent of the replacement cost of campus buildings. System wide, this reinvestment is funded by a combination of annual operating (Repair & Replacement), capital renewal and HEAPR funds.

**Fire Protection, Detection and Warning:** The HEAPR budget will focus on fire safety items and code compliance at existing facilities. An effort will be made to fund all high priority fire detection, monitoring, protection and other code related items. A general fire detection, monitoring, protection and testing plan should be included in each campus’ asset protection and loss control plan.

**NEXT STEPS:**

Per the Work Plan, Attachment A, institutions planning to submit projects for the 2006 capital budget should now be actively working on project predesign documents. Capital budget requests and initial project documentation must be submitted to the Office of the Chancellor by October 29, 2004. Final documentation must be submitted by December 15, 2004. Technical review of projects is scheduled to take place in January 2005. Scoring guidelines for technical reviews are contained in Attachment B. Off-site hearings by the Board of Trustees will take place between February and March 2005. Presentation of a final, prioritized project list will be presented to the Leadership Council in May 2005 with an anticipated final budget approval at the June 2005 meeting of the Board.

**RECOMMENDED COMMITTEE ACTION:**
The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion.

**RECOMMENDED MOTION:**
The Board of Trustees approves the FY2006–2011 Capital Budget Guidelines as presented.

*Date presented to the Board: June 16, 2004*