

Pennsylvania State System of Higher Education Facilities Manual

Volume IV Capital Appropriations Approval Process

Background

[Board of Governors' Policy 2000-02-A, Capital Facilities Planning, Programming, and Funding](#), provides detailed policy information on the capital appropriations process. Following is additional information necessary to implement the policy.

History

Prior to establishment of the Pennsylvania State System of Higher Education (PASSHE), the Universities lobbied for capital projects' funding with the Pennsylvania Department of Education and state legislators. Minimal funding in the range of \$12 million was received annually. In 1992, the Governor initiated a one-time program entitled Jumpstart. The Jumpstart program included a 75/25 shared-funding approach for projects and delegation of the projects to PASSHE for administration of the construction. The Universities were tasked with raising their share of the funding.

In 1996, the Academic Facilities Renovation Program (AFRP) was initiated. This program involved a shared-funding approach similar to Jumpstart; however, the matching funds were bond-financed for 20 years from the Universities E&G operating funds. The original bond issue was for \$75 million with funds and debt service distributed using the allocation formula. A second bond issue was approved for \$25 million to be borrowed on an "as needed" basis for AFRP-related projects. This program also identified an annual block of capital funds for PASSHE and the Board of Governors (Board) to use in planning which projects to fund. This block funding allowed PASSHE to begin actively planning projects for execution. These funds started at \$30 million annually; in 1997, the amount was increased to \$40 million.

In 2000, the Governor increased the annual appropriations by another \$25 million with a requirement to provide matching funds. Projects were approved and funded based on merit during presentations to the Finance, Administration, and Facilities (FAF) Committee of the Board. The Board subsequently approved Policy 2000-02, which is currently in use. From FY 2000-01 through FY 2008-09, Commonwealth funding for capital construction averaged approximately \$65 million annually. In 2009, the Governor increased the funding to \$130 million annually, but it only remained at that level for two years before returning to \$65 million in FY 2011-12.

Eligibility for Commonwealth Capital Funding

Facilities projects for the repair, renovation, addition, or new construction of PASSHE educational facilities may be programmed for financing from a Commonwealth capital appropriations act, providing the project meets the requirements of a capital project. PASSHE policies specify that auxiliary facilities shall be self-sustaining and are normally not eligible for capital appropriations financing. A capital project, as defined by the Commonwealth, is as follows.

Projects are considered capital and, therefore, must be authorized in a capital budget if (a) state bond proceeds are used and the total project is valued at \$100,000 or more (state bond funds will not be used for projects valued at less than \$100,000), or (b) current revenues are used and the total project is valued at more than \$300,000. Appendix IV-1 contains definitions for terms used by the Commonwealth for capital projects.

Normal maintenance and repairs, the purpose of which is to preserve or restore existing assets rather than to make an improvement or betterment to them, are not considered capital projects and, therefore, shall be budgeted under operating funds regardless of cost.

General Capital Process

The general process for execution of a capital project from inception through construction completion generally takes five to ten years. Following are some of the major milestones in the process. Details for key steps will follow in subsequent sections including the spending plan process, the legislative authorization process, and the design and construction process.

1. The University identifies the need for a project. This should be done in conjunction with Master Plan development and support the PASSHE Strategic Plan, the University Strategic Plan, and the University Academic Strategic Plan. This should occur five to ten years in advance of the project.
2. The University develops a preliminary project scope and cost estimate.
3. The University submits the project in the annual capital request with the approval of the Council of Trustees. The capital request includes projects the University anticipates constructing over the next five years (or more). The request includes general project scopes, brief justifications, and rough cost estimates. Projects for new facilities or significant additions must also include at least a preliminary feasibility study and financing plan for any match funding requirements.
4. The Chancellor's Office and FAF Committee of the Board review the requests and make recommendations for inclusion in the rolling five-year spending plan and legislative authorization, if necessary. Feasibility studies and financing plans must be finalized and reviewed prior to the year the project is planned for release for design.
5. The Board approves the spending plan and legislative authorization requests (July - October).
6. The spending plan is submitted to the Department of General Services and the Office of the Budget. Tentative release dates are established for current year projects (October).
7. The University submits a detailed Project Programming Statement, and Determination for Tax Exemption form for each project to be executed during the fiscal year. The documents are forwarded to the Department of General Services (DGS) to begin the selection process for a design professional.
8. If the project requires any matching funds, the University must also sign a letter of commitment to DGS. Letters of commitment must be consistent with the project financing plan.

9. A design professional is selected, and the project is designed. The University provides input for the design and is ultimately responsible for the scope and any additional funding above the Commonwealth capital appropriation for the project.
10. At completion of the design, another release is required by the Office of the Budget to allow the project to proceed to bidding for construction. This is transparent to the customer, unless the project costs have increased and another letter of commitment is required.
11. After the construction project is bid, the University may again need to sign a letter of commitment, if the costs are greater than what was previously committed.
12. If adequate funds have been committed, the project proceeds to construction.
13. Project construction is completed five to seven years after approval in an execution year spending plan (Step 5 above).

Spending Plan Process

In developing the rolling five-year spending plan, projects are prioritized by attempting (1) to evaluate the relative rate of return on investment for each project, and (2) to provide equitable distribution of capital funding across PASSHE. Items that are considered in the evaluation of the relative rate of return include (but are not limited to) the University's project priority order; the relative project ranking from the previous year; academic benefit; space, ADA, safety, and code compliance deficiencies; new revenue or matching fund potential; cost savings potential; and impact on the deferred maintenance backlog.

The approved project ranking from the previous year is given primary consideration in the review each year. Any radical reprioritization of projects scheduled early in the current spending plan is not recommended. Allowing for a University's desired master plan revisions, more flexibility will be afforded in deleting, revising, or replacing projects that are listed toward the end of the spending plan.

Spending Plan Objectives and Milestones

1. The University prepares or updates project justifications, prioritizes the projects, and seeks approvals, as necessary, from the Council of Trustees.
2. The University submits prioritized project justifications to the Office of the Chancellor (April 1).
 - The University **resubmits updated** capital project justifications for projects currently in the five-year spending plan that have not yet been released for execution, as well as any new projects desired for inclusion in the five-year plan. There is no need to resubmit a project justification if the University desires to have the project canceled.
 - Submission is required for projects with existing authorization, as well as projects that need initial legislative authorization or reauthorization. Projects requiring authorization will be submitted with the next Commonwealth capital request.
 - Submissions include Figures [IV-2](#) (page 1 only, with continuation sheet, if necessary) and [IV-3](#) from the *PASSHE Facilities Manual*.
3. Presentations may be required to be made to the Office of the Chancellor for new construction projects or additions.

4. The Office of the Chancellor compiles submissions and completes initial project evaluations.
5. The Office of the Chancellor distributes a complete set of materials to members of the FAF Committee of the Board.
6. The Office of the Chancellor and FAF Committee of the Board review and evaluate projects and produce a priority-ordered spending plan. University representatives may be contacted to answer questions or provide a project presentation, if necessary.
7. The Office of the Chancellor presents the spending plan to the Council of Presidents.
8. Additional staff work is completed as directed.
9. The Office of the Chancellor meets with the FAF Committee and representatives from the University, if necessary.
10. The Office of the Chancellor submits an agenda item for the July Board meeting for approval by the full Board.
11. The Office of the Chancellor presents the final plan to the Board for approval at the July meeting.
12. The Office of the Chancellor submits the spending plan to the Office of the Budget.
13. The University submits a detailed Project Program Statement, and the Tax-exempt Determination Form (Figures [IV-4](#), and [IV-6](#) of the *Facilities Manual*) for projects to be released.
14. The Office of the Chancellor submits the Capital Budget Authorization Request, as necessary, to support the approved spending plan upon request from the Office of the Budget.

Additional Considerations for Major Renovations, New Buildings or Significant Additions

Additional submission requirements are necessary for projects including major renovations, construction of new facilities or significant additions. This is due to the significant demand for capital and operating resources and the necessity to ensure that those resources are wisely invested and leveraged. Per Board Policy 2000-02-A, the Board may also require Universities to contribute toward the cost of some projects. Significant alternate funding contribution toward the cost of projects will be considered in the prioritization of projects.

Feasibility studies and financing plans, similar to that required for auxiliary projects, are needed for major renovations, construction of new buildings, or significant additions. The initial feasibility and financing plans may not be fully detailed; however, an effort is required to identify the information and documentation listed below. Final detailed plans are required prior to the projects' being considered for release.

1. Feasibility Study:
 - a. Addressing how the proposed facility contributes to or meets PASSHE's Academic Strategic Plan and the core mission and needs of PASSHE.
 - b. Indicating how the proposed facility serves the students.

- c. Showing how the facility increases efficiencies or contributes toward financial self-sustainment, including a net revenue projection.
- d. Identifying the applicable space guidelines addressed by the project.
- e. Supporting information may be required, such as a detailed space analysis, classroom utilization study, market analysis, or similar documentation.
- f. A final feasibility study will also address the economic, financial, technical, functional, environmental, and cultural advisability of the project, resulting in a programmatic diagram of the project showing a possible floor plan and architectural design that satisfies the desired facility requirements.
- g. Cost estimate summarized in the format required for the financing plan. The basis for costs and any escalation for inflation, etc., should be noted.

2. Financing Plan:

- a. Address financing for project construction, initial outfitting and occupancy, and post-construction operation and maintenance.
- b. Include specific details on funding sources, their amounts, and timelines for construction funding, operations, and maintenance.
- c. Funds from private donations must clearly indicate the type of donation (land, cash, trust, etc.) and the anticipated receipt. Supporting documentation may be required.
- d. Bond-funded bridge loans may be used to meet the cash flow for donations; however, the financing period will be kept to a minimum (generally 10 years or less). Where feasible, the financing will match the expectancy of the commitments.
- e. All bond funding must be pre-approved by the Board.

An updated and complete feasibility study and financing plan are required with the annual spending plan submission for the FAF Committee's review prior to the planned execution year. Projects without adequate financial resources to meet project requirements will be postponed.

Renovation and Replacement Projects

The additional submission requirements for new facilities and significant additions listed above are currently not required for life cycle renewal, renovation, and facility or infrastructure replacement projects. Although whole building replacements are considered in this category, the university may be asked for information similar to that above for new facilities depending on the size and scope of the project. Per Board Policy 2000-02-A, full funding for these projects may be requested; depending on the project, the Board may request the University to contribute funding.

Alternative Funding

Board Policy 2000-02-A encourages Universities to seek private sector or public/private alliances support for project funding. The Board may require Universities supplement Commonwealth capital funding with alternative fund sources on select projects. Effort will be made to ensure that alternative fund requirements for each project will take into account any extenuating circumstances. The policy allows exceptions at the discretion of the Board, to increase or decrease alternative fund requirements based on the circumstances.

Ultimately, the Financing Plan approved by the FAF Committee will establish the funding requirements for the project. The project Financing Plan will be used to evaluate the likelihood of generating the necessary funds from multiple sources in a timely manner to meet the design and construction requirements of a capital project. Funding must be sufficient to ensure proper completion of the project. Funding commitments greater than \$1 million will be placed in a **project account** controlled by the PASSHE Treasury Office (PTO) prior to release of the

Commonwealth capital funds or, if capital funds have already been released, prior to signing any supplemental DGS Letter of Commitment. Projects without adequate financial resources to meet the funding requirements as per the Financing Plan will be postponed.

Typical sources of alternative funds include gifts; unrestricted endowment income; corporate sponsorships; camp, conference, and similar net income; federal funds; university operating funds planned for capital improvements, or costs avoided with documented significant improvements in instructional or operational efficiency and effectiveness. With formal University Council of Trustees and Board approval, PASSHE bond funds may be used to meet the cash flow requirements of the projects versus receipt of the revenue. Revenue from sources, such as those listed above, should fully cover all bond expenses including fees, debt service, and principal.

Project Account

Funds placed in a PTO project account will remain the university's funds and will be provided back to the university for project expenses or upon final completion of the project. Reimbursement of applicable project costs will be made upon submission of university payment documentation for suitable project expenses or invoice/cash flow documentation to support cash flow needs. Funds will be returned to the university through an ACH transaction. The PTO will not make direct payment to contractors or others from the account. The PTO will provide an annual report on the balance of the account and any interest earnings. Interest earned from the funds in the account will be returned to the university.

Original Furniture and Equipment (OF&E)

OF&E can be funded for projects; however, the University should also seek to use grants, other alternate fund sources, and planned recapitalization funds in their operating budget for OF&E.

Capital Authorization Process

For a capital project to be funded, the project must be authorized by the legislature. The legislature passes Capital Budget Project Itemization Acts authorizing projects for future funding from Commonwealth bond proceeds approximately every two years. The basic capital appropriations approval process is shown in [Figure IV-1](#).

To authorize a project, PASSHE institutions submit projects for the annual spending plan to the Office of the Chancellor. Projects with the potential for being executed in the five-year spending plan will be submitted for inclusion in the capital authorization bill, following approval by the Board.

The Board reviews the recommended capital authorization requests at its quarterly meeting in October each year. Projects approved by the Board are submitted to the Governor and legislature for inclusion in the Capital Authorization Bill.

Projects approved by the legislature are listed in line item fashion in a Capital Budget Project Itemization Bill; once approved by the legislature, it is forwarded for the Governor's signature. The Governor may sign the bill as received, veto the bill, or "blue line" specific line items included in the bill. Projects included in a Capital Budget Project Itemization Act are then authorized for subsequent funding from Commonwealth bond proceeds. Authorization of a project does not guarantee its funding.

Design and Construction

Once a project is authorized and approved for funding, the initial project release for the design process can begin. Note, only the projects in the first year of the spending plan are approved for funding; subsequent years of the spending plan are for planning purposes only and are not approved for funding.

The following documentation is required to be submitted for a project to be released:

- Professional Selection Scoring Matrix
- Facilities Detailed Project Planning Document ([Figure IV-4](#))
- The appropriate tax-exempt determination form as required by Management Directive 105.5, dated September 12, 1991 ([Figure IV-6](#)).

Where alternative fund sources are required for new construction and significant additions, the completed feasibility study and financing plan must be approved prior to proceeding with the professional selection.

Upon approval by the Office of the Chancellor, the documentation is forwarded to DGS, who is responsible for administering contracts for design and construction of the project. In some circumstances the Secretary of DGS may delegate administrative responsibilities to PASSHE universities.

DGS submits the requests for release of funding to the Budget Secretary after review of the scope of work. The scope must agree with the project justification approved in the capital appropriations submission. The Budget Secretary releases funding for capital projects, as bond funding becomes available.

Upon release of design funding, each project requiring design must be presented to the Professional Selections Committee of professional architect/engineers pursuant to Act 45 of 1975, which governs DGS. The Facilities Detailed Project Planning Document (Figure IV-4) is used to develop the project scope and basis for selection of the designer by the Professional Selections Committee. The committee meets periodically, depending upon workload, at the request of the Secretary of DGS. On the basis of merit, the committee selects professionals and their consultant teams or professional firms for the design and administration of the projects. The committee recommends to the Secretary three qualified professionals in order of preference. The Secretary of DGS selects one of the three recommended professional firms.

The project is then designed. The Secretary of DGS may delegate contract administration to PASSHE. Delegation is accomplished by memorandum of agreement/understanding, which establishes the provisions under which PASSHE will administer the project.

Initiation of the design process begins with an orientation meeting with the professional to establish a schedule for completing design of the project. Four submissions are usually required from the professional—the sketch, preliminary design, pre-final design, and final design. Submissions are reviewed and approved by the agency administering the professional agreement.

Upon completion of the final design, the Secretary of DGS requests release of funding for bidding and construction of the projects. For delegated projects, requests are made by the University to the Secretary of DGS via the Office of the Chancellor. The Office of the Budget releases funds through the sale of bonds in accordance with priorities established by the

Governor. DGS (or, for delegated projects, PASSHE) may not proceed with advertisement until the Office of the Budget releases funds for a specific project.

The Office of the Budget considers requests for release of funds for PASSHE projects along with all other Commonwealth requirements. Funds are released according to a capital implementation plan agreed to by DGS and the Office of the Budget.

Upon release of funding for construction, the project is advertised, bid, and awarded according to Commonwealth contracting procedures, or, for delegated projects, according to PASSHE's procedures as outlined in Volume VIII and the *Administrative Procedures for Contract Procurement of Facilities Projects* manual. The advertisement, bid, and award process take approximately 90 days.

During construction, PASSHE monitors the progress of projects administered by DGS to address operational impact and the "owners'" responsibilities. PASSHE administers all aspects of the construction process for delegated projects, as specified in the memorandum of agreement/understanding.

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