

**Council on Postsecondary Education**  
**September 28, 2008**

## **Capital Projects Update**

The following is a brief update on several capital or institutional infrastructure related issues.

### **2008-10 Capital Renewal Pool (HB 406)**

The 2008 General Assembly restored a \$13.9 million Capital Renewal and Maintenance (CR&M) Pool of matching funds to address critical upgrades and replacement of building systems (e.g., HVAC systems, electrical systems, roofs, etc.) that was vetoed following the 2006 session. Similar capital renewal pools of \$20.6 million and \$30 million were funded in the 1998-2000 and 2000-02 biennia, respectively. However, these pools provide only a small fraction of the resources needed to adequately upgrade and preserve what is increasingly an aging institutional infrastructure according to the comprehensive facilities assessment study completed in 2007.

According to HB 406, the Council shall determine the allocation of funding in the pool and report that allocation to the Secretary of the Finance and Administration Cabinet and the Capital Projects and Bond Oversight Committee. HB 406 stipulates that the Council shall require matching funds from the institutions. There is a varied institutional match for each \$1 of pool funds. The match must be certified by the institution to the Council and the Finance and Administration Cabinet before release of funds to an institution.

Because the CR&M Pool represents a restoration of a capital project recommended by the Council in the 2006-08 biennial budget recommendation, the guidelines (attached) incorporate the related institutionally agreed allocation and match adopted in November 2005 by the Council. The CR&M Pool provides funding for individual projects at Kentucky's public postsecondary institutions to upgrade and replace building systems and infrastructure in education and general facilities.

Because of the timing of the availability of pool funds, institutions are encouraged to exercise early identification and implementation of CR&M projects. Early identification and completion of projects certified through the Council guidelines (process) will be reimbursed from the pool when funds become available.

### **Preserving and Protecting the Investment of Public Funds in State-Owned Facilities (SB 189)**

Senate Bill 189, passed by the 2008 General Assembly, focuses on protecting the investment of public funds in state-owned facilities through planned maintenance, renewal, and renovation. SB 189 further recognizes that minimizing deterioration of state-owned facilities, limiting the effects of cost inflation associated with the deferral of necessary major

maintenance and repair, and ensuring that facilities comply with necessary health and safety requirements, requires a proactive policy to preserve and protect the public investment.

The General Assembly directed the Council on Postsecondary Education and the Office of the State Budget Director to produce and present to the Legislative Research Commission on or before December 1, 2008, a report with recommendations addressing the establishment and implementation of a process for funding deferred and future major capital renewal, maintenance, and renovation needs costing \$600,000 or more each for facilities owned by the Commonwealth and operated by the postsecondary institutions.

The report will take into account comments from institutional representatives, the findings and recommendations of the postsecondary education Facility Condition Assessment and Space Study Project (VFA Report), best practices of other states, and postsecondary education organizations.

The process for completing the report includes:

July-December 2008	Meeting with Institutional Chief Budget Officers and Facilities Coordinators
August-December 2008	Meeting with Office of State Budget Director Staff
September 23, 2008	Status Report to the Capital Planning Advisory Board
Sept.-November 2008	Status Report to the Council on Postsecondary Education
December 1, 2008	Final Report to the Legislative Research Commission
Dec. 2008-Nov. 2009	Develop and Implement Strategy for 2010-12 Council Capital Request

The report should be useful as the Council develops and implements a strategy for its 2010-12 capital budget request.

**Physical Facilities Trust Fund  
2008-10 Capital Renewal Pool (HB 406)  
DRAFT Guidelines**

**What is the Capital Renewal and Maintenance Pool?**

The Capital Renewal and Maintenance (CR&M) Pool provides \$13.9 million with a variable match for individual projects at Kentucky's public postsecondary institutions to upgrade and replace building systems and infrastructure in education and general facilities.

**What have the funding levels been in the recent past?**

A similar pool totaling \$30 million with a \$1 for \$1 match was funded in 2000-02 and a \$20.6 million pool with a \$1 for \$1 match was funded in 1998-2000.

**How are the CR&M pool funds allocated?**

The Council determines the allocation and reports that allocation to the secretary of the Finance and Administration Cabinet and the Capital Projects and Bond Oversight Committee. The pool restores a capital project authorized by the 2006 General Assembly. The related institutionally agreed allocation and match adopted by the Council in November 2005 will be used.

**When will funding be available?**

Funds ordinarily are available the second year of the biennium. The appropriations act provides a half year's debt service (\$4.9 million) in 2009-10, a portion of which supports new bonds for the CR&M Pool. Technically, this means that the money can be available as early as July 2009. However, if the Finance and Administration Cabinet identifies funds to allow the debt to be issued earlier, the Council would encourage that action and possibly have access to funds earlier.

**Are institutions required to match the funds?**

HB 406 (page 128) stipulates that the Council shall require matching funds from the institutions. There is a varied institutional match for each \$1 of pool funds. The match must be certified by the institution to the Council and the Finance and Administration Cabinet before release of funds to an institution.

**How are CR&M projects identified?**

Individual projects are submitted first by the institutions to the Council and subsequently by the Council to the secretary of the Finance and Administration Cabinet. Eligible projects are identified using the statewide facilities assessment and associated reports (VFA Study), Table 1-A of the 2008-10 Council capital recommendation, or by a submitted capital project that addresses the significant backlog of system replacement, upgrades, and modifications (building components, infrastructure, utility distribution systems, security systems, and other components in danger of failure) required for education and general facilities.

### Can CR&M projects be advance funded?

Because of the timing of the availability of pool funds, institutions are encouraged to exercise early identification and implementation of CR&M projects. Early identification and completion of projects certified through the Council process will be reimbursed from the pool when funds become available.

### Notes and Commentary

#### Highlights

- Flexibility is provided for an institution to identify a project that has risen to the position of critical since the appropriation bill was passed.
- A capital project must be a complete project (can be used in a stand alone fashion when complete). A capital project for the CR&M pool is not defined as a study.
- The capital match must be cash, i.e., agency funds, private funds, grants, or other non-state General Funds.
- The Council must determine whether the CR&M funds can be used in combination with B4B allocations to implement a project and, if so, which required match applies to the funds (\$1 for \$1 or the varied match). Possible types of capital project that may qualify are lab fit-up, minor office renovations, installation of lab infrastructure, etc.

The pool allocation and match are provided below:

<u>Institution</u>	<u>Average Percent of Useful Life</u>	<u>% Share of E&amp;G Space</u>	<u>Pool Allocation</u>	<u>Required Match</u>
EKU	143.68	9.7	\$1,353,200	\$947,200
KCTCS	139.67	22.8	3,181,700	2,227,200
KSU	106.68	2.7	369,900	332,900
MoSU	141.30	5.0	696,700	487,700
MuSU	145.00	7.1	986,600	690,600
NKU	123.04	6.0	831,400	665,100
UK	183.53	24.7	3,445,500	2,067,300
UofL	140.47	14.8	2,058,200	1,440,700
WKU	146.41	7.2	1,003,700	702,600
Total		100.0%	\$13,926,900	\$9,561,300

<u>Average Useful Life</u>	<u>Match Rates</u>
1. Useful Life History: less than 90% of expected useful life	\$1.00
2. Useful Life History: greater than 90% but less than 110% of expected useful life	0.90
3. Useful Life History: greater than 110% but less than 130% of expected useful life	0.80
4. Useful Life History: greater than 130% but less than 150% of expected useful life	0.70
5. Useful Life History: greater than 150% of expected useful life	0.60