

# *Policies and Procedures*

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|---|------------------------------|---------------|---------------|
| <i>SECTION:</i><br><b>Financial</b>       | <i>NO.</i><br><b>3.1.25.</b> |               |               |
| <i>CHAPTER:</i><br><b>General</b>         | <i>ISSUED:</i><br>4/5/17     | <i>REV. A</i> | <i>REV. B</i> |
| <i>POLICY:</i><br><b>Capital Projects</b> | <i>PAGE 1 OF 7</i>           |               |               |

## **PURPOSE**

The purpose of this Policy is to establish guidelines and information requirements for identifying, evaluating and obtaining approval from the Board of Trustees for any capital project with an expected cost of \$5 million or more. Adherence to such Policy will ensure the prudent use of University and donor resources for capital projects that will support the University's mission and strategy.

## **POLICY**

All University capital projects over \$5 million are subject to the processes outlined in the Procedure section. Please note that the Board of Trustees must approve a project at various phases (as described below) before the University may advance a project to the next phase.

## **DEFINITIONS**

**Capital Project:** Any new building construction project or any building renovation project with an estimated project budget of \$5 million or more.

## **PROCEDURE**

A Capital Project may advance through the following Preliminary Project Phases without Board approval:

### **Preliminary Project Phases**

**Identification** – A project idea is developed based on the needs or requirements of a particular school/college/division. The project is at its inception at this point with very little concept developed. The project may be identified in the capital planning process at this early stage if included in the annual budgeting cycle's "call for capital requests."

**Concept** – A project idea is carried forward by a subject matter expert and/or project sponsor in the development of overall project scope and objectives, alignment with University strategy, major opportunities and risks, expected outcomes, and high-level estimates of required investment and project timing.

**Feasibility** – A project enters into an analysis stage considering estimated capital requirements, potential revenue and expense components, funding arrangements, strategic connection, alternatives considered, and assessment of risks for doing/not doing the project. A case statement is prepared on the project at this time that includes information described in the attached **Exhibit A**. The project sponsor is responsible for directing the efforts of this phase, using resources from Finance, Development, Facilities Management, Information Technology, and other subject matter experts. The results of the Project Feasibility stage may be carried forward into the University's Five-Year Capital Planning Process.

# ***Policies and Procedures***

|   |                              |               |               |
|---|------------------------------|---------------|---------------|
| <i>SECTION:</i><br><b>Financial</b>       | <i>NO.</i><br><b>3.1.25.</b> |               |               |
| <i>CHAPTER:</i><br><b>General</b>         | <i>ISSUED:</i><br>4/5/17     | <i>REV. A</i> | <i>REV. B</i> |
| <i>POLICY:</i><br><b>Capital Projects</b> | <i>PAGE 2 OF 7</i>           |               |               |

## **Approvals upon completion of Preliminary Phases**

Prior to seeking Board approval to commence the Schematic Design, Design Development & Bid Documentation, and Construction Phases described below, the request must first be approved by the Board's Budget and Finance Committee. Exhibit B outlines control documents that will be maintained to ensure project authorization throughout the phases of design and construction.

## **Project Design and Construction Phases**

**Programming** – A formal phase for determining functional requirements based on curriculum/program/services associated with the project. This phase is typically supplemented with outside expertise and determines a refined level of project cost estimation. If construction is required, alternative site locations may be considered during this phase along with program information that may assist in a plan for raising funds for the project. This phase is directed by a project sponsor and utilizes a steering committee and a designated project team assigned to the project.

1. The request shall include a description of the need or identification of the program to be accomplished by the project; a narrative description of the project and of alternatives, if any, to the proposed course of action.
2. The estimated cost of the project expressed as a range and the probable sources of funds (University cash, donations, external debt) shall be provided. Cost estimates provided at this time are tentative and are subject to later revision.

**Schematic Design** – This phase utilizes the output from the Programming Phase to design spaces for the required program functions. Project timeframes and refined cost estimates are developed along with fundraising materials. A formal project team is assigned with a project leader accountable for completing the phase. A steering committee remains in effect for this phase and later phases to facilitate decision making and project monitoring. The University shall seek Board approval prior to starting this phase for any proposed Capital Project.

1. The Project Feasibility Study will address the Capital Project Evaluation Criteria set forth in Exhibit A to this Policy.
2. The Preliminary Construction Budget will provide a detailed breakdown of estimated expenses by the following categories: building/site prep, furniture, fixtures and equipment (FFE), professional services, demolition, and escalation/contingency.
3. The Preliminary Financing Plan will provide the following:
  - Pro forma financial projections of incremental project cash flow for 10-year period

## *Policies and Procedures*

|   |                              |               |               |
|---|------------------------------|---------------|---------------|
| <i>SECTION:</i><br><b>Financial</b>       | <i>NO.</i><br><b>3.1.25.</b> |               |               |
| <i>CHAPTER:</i><br><b>General</b>         | <i>ISSUED:</i><br>4/5/17     | <i>REV. A</i> | <i>REV. B</i> |
| <i>POLICY:</i><br><b>Capital Projects</b> | <i>PAGE 3 OF 7</i>           |               |               |

- Fundraising Plan
  - Expected donor funding as % of total project costs, fundraising timeline, allowable pledge period, minimum % cash received prior to construction commencement
  - Naming rights opportunities should be identified
  - Anticipated funding for new operating and maintenance costs
  - University may engage in informal discussions with donors to gauge interest, but no contribution commitments may be sought at this time
- If expected donor funding is less than 100%, identification of other sources of financing must be presented
  - If debt financing is part of plan, assumptions, structure and impact on the University's credit profile will have been approved previously by Board Budget & Finance Committee

**Design Development & Bid Documentation** – The next phase of the project will be the development of final design documentation and bid packages. At this point, all funding sources have been determined and commitments to the project have been evaluated. The University shall seek Board approval prior to starting this phase for any proposed Capital Project.

1. Schematic designs which shall include information on the net to gross square footage ratio (including estimated construction cost per square foot, exterior materials and relationship of exterior design and materials to the campus context (for new construction), operating and maintenance costs, project schedule, and any additional information requested by the Board.
2. The final Construction Budget will provide a detailed breakdown of estimated expenses by the following categories: building/site prep, furniture, fixtures and equipment (FFE), professional services, demolition, and escalation/contingency. Any variances from the Preliminary Construction Budget that exceed 5% must be explained.
3. The final Financing Plan will provide the following:
  - Pro forma financial projections for incremental project cash flow for 10-year period
  - Final Fundraising Plan which will address:
    - Minimum level of donor funding commitments as % of total project costs that must be achieved prior to execution of construction contracts
    - Minimum level of donor funding cash that must be received by the University before execution of construction contracts
      - University may launch formal donor solicitation discussions upon Board approval of this phase
  - If approved donor funding % is less than 100%, identification of other sources of financing must be presented

## ***Policies and Procedures***

|   |                              |               |               |
|---|------------------------------|---------------|---------------|
| <b>SECTION:</b><br><b>Financial</b>       | <b>NO.</b><br><b>3.1.25.</b> |               |               |
| <b>CHAPTER:</b><br><b>General</b>         | <b>ISSUED:</b><br>4/5/17     | <b>REV. A</b> | <b>REV. B</b> |
| <b>POLICY:</b><br><b>Capital Projects</b> | <b>PAGE 4 OF 7</b>           |               |               |

- If debt financing is part of plan, assumptions, structure and impact on the University's credit profile will have been approved previously by Board Budget & Finance Committee

**Construction** – Board approval of the final project cost budget and financing plan is required prior to the commencement of the construction phase.

**Post Completion Review** – Within 12 months following the completion of any capital project covered by this policy, the University will prepare a post-completion review that will include: a budget-to-actual comparison of project costs, funding sources and amounts, revenues, and operating costs; an explanation of any material deviations from the approved project plan and/or key assumptions underlying the final Construction Budget and Financing Plan; and a “lessons learned” qualitative assessment of the construction and implementation process used for the project.

### **SCOPE**

This policy shall apply to all Capital Projects sponsored by the University or any school, college, or auxiliary operations thereof.

### **AMENDMENTS OR TERMINATION OF POLICY**

The University reserves the right to modify, amend or terminate this policy at any time.

# *Policies and Procedures*

|   |                              |               |               |
|---|------------------------------|---------------|---------------|
| <i>SECTION:</i><br><b>Financial</b>       | <i>NO.</i><br><b>3.1.25.</b> |               |               |
| <i>CHAPTER:</i><br><b>General</b>         | <i>ISSUED:</i><br>4/5/17     | <i>REV. A</i> | <i>REV. B</i> |
| <i>POLICY:</i><br><b>Capital Projects</b> | <i>PAGE 5 OF 7</i>           |               |               |

## **EXHIBIT A**

### **Capital Project Evaluation Criteria**

The University shall prepare information for evaluating Capital Projects using the criteria defined in this Exhibit during the **Feasibility** Phase. This information will be refined as needed and reviewed with the Board of Trustees during the **Programming, Schematic Design, Design Development** and **Construction** phases. The criteria are outlined below:

1. How does this project help fulfill the University's mission and strategy in the following areas:
  - Alignment with strategic priorities?
  - Student demand/experience?
  - Academic excellence, program accreditation and University stature?
  - Research and scholarship?
  - Operational efficiency/effectiveness?
  - Risk management, campus safety and regulatory compliance?
2. What other alternatives were explored to meet the needs identified above; why were they rejected and why is the proposed project the best way to meet the identified need?
3. Does the proposed project conform to the campus master plan?
4. When this project is completed, what facilities and total square footage will be abandoned, transferred or demolished and how does this compare to the new or renovated square footage?
5. What financial resources are available to build/remodel/renovate the proposed capital project including:
  - Source(s) of funding?
  - Incremental revenue from increased demand and/or program enhancement?
  - Availability of funds as it relates to cash flow requirements?
  - Income stream to provide debt service on bonds, if they are to be issued? Calculation of financial return on investment, when applicable?
6. What resources are available to operate and maintain (O&M) the proposed capital project without compromising current programs and operations:
  - Preliminary costs and sources of O&M funds, e.g., general fund, self-supporting, endowment, etc.?
  - Effect on existing programs/operations if O&M support comes from general fund?
7. Identification of any compelling external forces that justify approval of this capital project:
  - Accreditation requirements?

## ***Policies and Procedures***

|   |                              |               |               |
|---|------------------------------|---------------|---------------|
| <i>SECTION:</i><br><b>Financial</b>       | <i>NO.</i><br><b>3.1.25.</b> |               |               |
| <i>CHAPTER:</i><br><b>General</b>         | <i>ISSUED:</i><br>4/5/17     | <i>REV. A</i> | <i>REV. B</i> |
| <i>POLICY:</i><br><b>Capital Projects</b> | <i>PAGE 6 OF 7</i>           |               |               |

- Federal and/or state mandate?
  - Compliance with health/safety/welfare laws?
  - Federal/foundation grant or other external funding opportunities?
8. Amount and intended sources of future capital renewal funding to be included when the project budget is submitted for approval.

# ***Policies and Procedures***

|   |                              |               |               |
|---|------------------------------|---------------|---------------|
| <i>SECTION:</i><br><b>Financial</b>       | <i>NO.</i><br><b>3.1.25.</b> |               |               |
| <i>CHAPTER:</i><br><b>General</b>         | <i>ISSUED:</i><br>4/5/17     | <i>REV. A</i> | <i>REV. B</i> |
| <i>POLICY:</i><br><b>Capital Projects</b> | <i>PAGE 7 OF 7</i>           |               |               |

## **EXHIBIT B**

### **Project Control Documentation**

Board approval is required for all Capital Projects. In order to control proper authorization of the project throughout major phases of Design and Construction, the following documentation will be developed in advance of the phases noted below:

- Schematic Design Phase
  - Summary of Project Evaluation Criteria (as noted in Exhibit A)
  - Range of Estimated Project Costs
  - Probable Sources of Funding
  - Budget & Finance Committee Resolution
  - Board of Trustees Resolution
  - Project Endorsement Form (PEF) Authorization – VP, Provost, SVP, President
  
- Design Development and Bid Documentation
  - Updated Summary of Project Evaluation Criteria (as noted in Exhibit A)
  - Preliminary Construction Budget and Project Schedule
  - Preliminary Financing Plan
  - Project Endorsement Form (PEF) Authorization – VP, Provost, SVP, President
  - Budget & Finance Committee Resolution
  - Board of Trustees Resolution
  
- Construction Phase
  - Updated Summary of Project Evaluation Criteria (as noted in Exhibit A)
  - O&M Cost Forecasts
  - Final Construction Budget and Project Schedule
  - Final Financing Plan
  - Project Endorsement Form (PEF) Authorization – VP, Provost, SVP, President
  - Budget & Finance Committee Resolution
  - Board of Trustees Resolution