



TOPIC: Proposed Revisions to Board of Regents Policy VIII-10.20—Policy on the Capital Budget of the University System of Maryland

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: January 28, 2016

SUMMARY: Annually, the Board of Regents approves a Capital Improvement Program (CIP) that represents the USM request to the Governor for funding of state-supported capital projects and a System Funded Construction Program (SFCP) in support of USM and/or USM institution-funded capital projects. The submission and management of this capital program is made via the Board's Policy on the Capital Budget. This policy was last revised in February, 2010.

At the recommendation of the USM E&E 2.0 Procurement Study Group and as supported by the USM Administrative Vice Presidents and the Council of University System Presidents, today's action recommends a revision to this policy intended to streamline the approval process for excess expenditures (costs above the budget approved by Board) on System Funded Construction Project projects. With this action, the following changes would be made to the policy:

- (1) The Vice Chancellor for Administration and Finance may authorize excess expenditures on SFCP projects in the amount of 10% or \$1,000,000, whichever is less (rather than 10% and \$500,000); and,
- (2) The Chancellor may authorize excess expenditures up to 20% or \$5,000,000, whichever is less as deemed necessary.

A summary and the detailed changes are included on the attachments.

Many of the projects within the thresholds supported by the revised policy language generally involve maintenance, repair and/or minor renovations that are responsive to space change needs that may have tight schedule requirements, facilities renewal and emergency projects (e.g., utility repair and replacement). The institutions would benefit greatly from the flexibility provided by these revisions. Additionally, there have been no intervening changes to the capital budget policy that would reflect the diminished value (purchasing power) of the U.S. dollar and an overall increase in the cost of construction since the original policy was approved. The proposed revisions would be consistent with existing procurement policies and procedures.

It is important to note that the proposed revisions do not change existing policy related to USM debt issuance and management, fund balance requirements or the state-supported Capital Improvement Program.

ALTERNATIVE(S): The committee could elect to maintain the current capital budget policy as written.

FISCAL IMPACT: This recommended change in policy has no direct fiscal impact.

CHANCELLOR'S RECOMMENDATION: That the Finance Committee recommend that the Board of Regents approve the proposed revision to the Policy on the Capital Budget of the University System of Maryland, as presented.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Joseph F. Vivona (301) 445-1923

SUMMARY

Recommended Changes to Approval Thresholds for SFCP Project Modifications

	Current Policy	Revised Policy
USM VCAF Approval Required	Changes up to 10% of total or \$500,000, whichever is less	Changes up to 10% of total or \$1M, whichever is less
Chancellor's Discretion <i>Based on the nature of project, the Chancellor would have the option to approve or send to Board for approval; reporting afterward to the Board as required</i>	N/A	Changes up to 20% of total or \$5M, whichever is less
BOR Approval Required	In excess of the above	In excess of the above

NOTE: As with the use of USM bonds, and given the requirements to notify DBM and/or the Budget Committees of the General Assembly (for some projects), the Board of Regents should continue to approve projects that contain State General Obligation Bond funds regardless of size.

Justification and Explanation:

Applies to cases in which there are excess expenditures on SFCP projects, such additional expenditures do not typically require any external borrowing. Per this same policy, an institution may internally finance projects under \$1M if sufficient self-support cash resources are available and external borrowing is not required.

Since an institution can proceed with a project under \$1M that does not require external borrowing, the recommendation is that this also apply to excess expenditures on a SFCP project approved by BOR, when no additional external borrowing is required. Additionally, given that the USM Chancellor can approve a project between \$1M and \$5M that does not require external borrowing, the recommendation is that this also apply to excess expenditures on a SFCP project approved by BOR, when no additional external borrowing is required—if, at the discretion of the Chancellor, this is the most prudent way to proceed in a timely way.

Data was evaluated from the three largest USM institutions for eight (8) SFCP projects in FY12 through FY15. Based on this data, 4 of the 8 projects had excess expenditures between \$500K and \$1M so BOR approval was required; 3 of the remaining 4 experienced increases of between \$1M and \$5M and went through the Board of Regents process. An increase to a final (8th) project exceed \$5M.

In some cases, the excess expenditures were identified early, so the required approvals did not impact the project—but in other case, the construction work had to be divided into multiple bid packages to avoid impacting the construction schedule, which also resulted in additional BPW meetings.

VIII-10.20 - POLICY ON THE CAPITAL BUDGET
OF THE UNIVERSITY SYSTEM OF MARYLAND
(Approved by the Board of Regents, May 1, 1992;
amended February 12, 2010;)

1. The Chancellor shall present annually to the Committee on Finance a proposed asking year request for the State Capital Improvement Program (CIP) and asking year request for the System Funded Construction Program (SFCP). Both CIP and SFCP submissions shall include a projected budget request by fiscal year for the four years succeeding the asking year request.
2. Definitions:
 - a. CIP: A program administered by the State Department of Budget and Management for project and funding authorization of capital improvement projects funded with resources of the State.
 - b. SFCP: This program as administered by the USM Office of the Vice Chancellor for Administration and Finance provides a mechanism for Board of Regents project approval and funding authorization for those eligible projects funded with resources of the USM and/or a USM institution including cash reserves and set-asides for a specific project and external borrowing as administered by the USM consistent with Board of Regents Policy VIII - 12.00.
3. Projects less than \$1,000,000 are not normally considered part of the SFCP. An Institution may internally finance (excepting for external borrowing) such projects only if sufficient self-support cash resources are available.
4. The USM shall obtain Board of Regents project and funding approval for SFCP eligible (non-State funded) projects if the cost is greater than \$5 million. Eligible projects costing between \$1 million and \$5 million require the approval of the Chancellor.
5. In order to avoid delays in the completion of an eligible SFCP project, the Vice Chancellor for Administration and Finance may authorize expenditures in excess of that approved by the Board (or by the Chancellor under line 4 of this policy) in the amount of 10% or ~~\$500,000~~ \$1 million, whichever is less. Furthermore, the Chancellor may authorize (at the Chancellor's discretion) expenditures in excess of that previously approved in the amount of 20% or \$5 million, whichever is less. An Institution may internally finance (excepting for external borrowing) increases to such projects only if sufficient self-support cash resources are available. Increases of any size to projects funded wholly or in part with State GO Bonds must be approved by the Board of Regents, regardless of the source of funds used for the increase.
6. Each President shall prepare and submit to the Chancellor a CIP and SFCP budget request in accordance with the timetable, guidelines and instructions as established by the Chancellor. The information presented by the Chancellor to the Committee on Finance shall:
 - a. Include the request of each institution and each component as formulated by its President to implement Board of Regents' approved policies and plans.
 - b. Include the Chancellor's recommendations for each institution and component for each type of request.

- c. Include the Chancellor's recommendations for System priorities.
 - d. Recognize the differences in the size of the institutions and components and in their missions as established by the Board.
 - e. Be prepared in accordance with the timetable instructions and procedures established by the Board.
 - f. The Finance Committee shall consider and recommend annually to the Board a proposed State Capital Improvement Program and a System Funded Construction Program as defined by and consistent with this policy.
 - g. The Board shall review and modify, as necessary, the recommendations of the Finance Committee, and approve a State Capital Improvement Program and a System Funded Construction Program.
 - h. After approval by the Board of Regents, the Chancellor shall submit annually to the Governor and the Maryland Higher Education Commission the documentation required for the State Capital Improvement Program as established by the State Department of Budget and Management and the 5-year System Funded Construction Program.
 - i. The Board of Regents shall approve in the System Funded Construction Program all projects proposed for funding through any kind of borrowing; the Chancellor shall be responsible for determining the most appropriate method(s) of financing those projects approved by the Board taking into account institutional debt (external or internal) affordability and USM borrowing capacity.
7. The authority granted to the Chancellor under this policy may be delegated by the Chancellor to any Officer of the USM Office.