

# Durability, Longevity, and Honoring the Queue

## How USM Establishes Capital Priorities

Talking Points for Presentation to the Capital Investment Workgroup of the Commission to Develop the Maryland Model for Funding Higher Education

June 10, 2008

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### INTRODUCTION

The Board of Regents is charged in statute (SB 682, 1999) with preparing a ten year capital program and submitting (specifically) a five year request to the State for capital projects. Requests are to be in priority order (discuss more about that in a moment) and be based on two basic parameters: (1) funding requests should mirror the Governor's CIP or a projection of anticipate funding beyond the Governor's CIP based on "current levels, adjusted for inflation;" and (2) requests should be in accordance with the State Plan for Higher Education. The point here is that Regents are in a unique position to recommend the most effective plan for the institutions of the USM. They work within a framework of anticipated funding, but the decision as to what projects to be put forward (in terms of priority) is the Board's responsibility. As you will see, we make every attempt to work very closely within the queue established within the Governor's CIP. This brings a high level of credibility and predictability to the process.

#### Three Drivers of Capital Budget

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- Program / enrollment
- Physical deterioration
- Outside influences

#### Goals

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- Durable
- Balanced over the long-term




Three primary considerations in capital budgeting:

- Programmatic drivers (enrollment, program growth and change, technological advancements—strategic as well as tactical goals and objectives)
- Physical deterioration (time, weather, use—even without any other influences)
- Outside influences (economic development—research facilities is a good example, legal requirements—like the OCR agreement, special funding initiatives—STEM and workforce education, others—like BRAC, etc.). These don't always fit neatly into a formula, nor are the easily quantified.

These considerations converge in the process and their respective weights are dynamic given factors like institutional mission, demographics, economics, funding streams, and the views of our elected officials. The goal is to balance these considerations and factors while developing a plan that is durable over the long-term facilities cycle. Capital investment must be measured and evaluated over long periods.

One contextual feature I would add is something we've discussed in this workgroup; namely the relative quality of Maryland's capital process as praised by outside evaluators like Governing Magazine and validated by the State's AAA credit rating. There is inherent value in the State process that we build-upon at the System level. You'll see that as we proceed with this presentation.

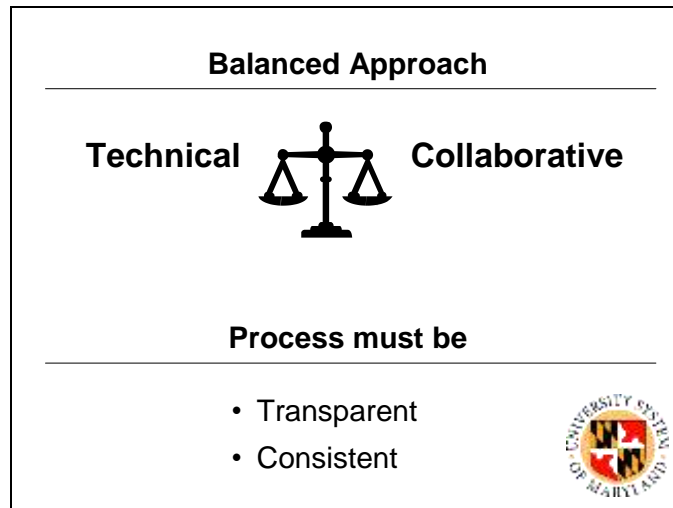
<p style="text-align: center;"><b>Definition: Project Priority</b></p> <hr/> <ul style="list-style-type: none"><li>• The position (year) of a project within the capital funding queue relative to other projects within the queue.</li></ul> <p style="text-align: center;"><b>Capital Budget "Climate"</b></p> <hr/> <ul style="list-style-type: none"><li>• Multiple requests competing for Limited funds</li></ul> 
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**THE CLIMATE WITHIN WHICH WE WORK**

1. "Priority" is defined as relative position (year) in which a project is placed within the proposed funding queue relative to other projects within the queue. (We do not assign a priority number to a long list, nor match projects to a pre-established set of project types.)

2. General “climate” within which we budget:

- Varied, multiple requests from 13 (now 12) diverse institutions and 3 centers, each with distinct yet complementary missions
- Requests often represent highly justified but competing priorities (when viewed across USM institutions)
- Limited funds (State funding is typically no more than half of what institutions request in any given planning cycle)



3. Therefore, the Board’s approach is a balance between

- Technical (data-driven) review of needs; and
- Collaborative (discussion-driven) review and iteration.

4. The process must be both

- Transparent (no algorithm-driven “black boxes”) to all participants; and
- Consistent (based on previous year’s priorities).

More about this approach will follow. In an environment of constrained resources, how do you reconcile contrasting alternatives as unrelated as (say) apples and oranges? Suffice it to say that the current approach to capital budgeting, as practiced by the Regents each year, is successful because it effectively balances the quantitative/technical aspects of decision-making and a “good faith” collaborative process that gives it credibility. We try to blend an understanding of the need with an iterative discussion among members of a governing body (the Board) and the stakeholders in the process (the

institutions). A strictly formulaic approach to the capital budget (relying on a "black box" to generate a priority list each year) eliminates the critical "human" element in the process. Participation and collaboration among all those affected by the decision provides one of the most effective paths to wider acceptance of the outcomes. And in this age of tighter budgets and stronger scrutiny (from inside and out), the result is a budget that is easier to implement and defend.

One more critical point: the State's highly regarded capital process (from DBM to the Governor to the Budget Committees) is not dollar-based. It is project-based. The entire structure of capital decision-making in Maryland is focused on evaluation of the benefits vs. costs of specific capital projects—not funding levels. Capital budgeting doesn't lend itself to formulas. It's not like the operating budget where you can make minor adjustments and increases in fractions of a percentage while allocating resources among 13 (now 12) different institutions. Instead, you're allocating very limited, multi-million (or larger) chunks of one-time funding for new buildings. These budgetary shifts among institutions are only temporary and a project-based program will ultimately balance out in the long term.

**3 Levels of Capital Priorities**


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- Annual (Asking Year)
- Governor's 5-Year CIP
- Regents' 10-Year CIP

**Asking Year**

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- Logical project progression



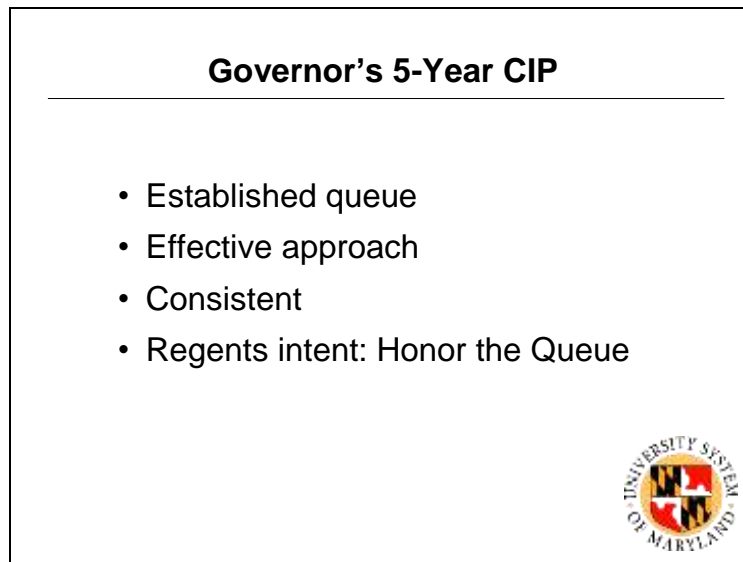
### THREE LEVELS OF CAPITAL PRIORITIES

1. Annual (asking year) priorities
2. Governor's 5-year CIP
3. Regents' 10-Year CIP

## 1. Asking Year (for funding)

First, construction funding partially cut by the General Assembly with intent to fully fund the following year (e.g., "phased construction") receives highest priority. Second, projects in the Governor's CIP typically receive a higher priority than those that are new or accelerated into the asking year. Finally, all projects typically receive funding consideration in the following order:

1. **E** Equipment funding to complete projects already under construction
2. **C** Construction funding to complete projects that have been planned
3. **P2** Detailed planning for projects that already received preliminary planning
4. **P1** First-time (preliminary) planning appropriations
5. **A** Acquisition of property (first for planned projects and second for general expansion)
6. Special requests for consideration of assistance for otherwise non-State auxiliary facilities



## 2. Governor's 5-Year CIP (incorporates the Asking Year)

**One of the things I want to be sure you take from this discussion today is the Regents' insistence on honoring the queue once it is established in the Governor's CIP. What is the CIP?**

- Established queue of projects spans 5 years
- Effective approach to capital management (cited in Governing Magazine survey as a positive for Maryland's process)
- Fairly consistent, year-to-year (rarely changed, only adjusted) to maintain credibility of the program; predictable (also a Governing Magazine comment)
- Makes single-year formulas (e.g., Utah) unnecessary

### **Regents 10-Year CIP**

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- Focus on yrs 6-10 and beyond
- Incorporate Governor's CIP
- Establish funding targets
- Consistency (adjustments to queue)



### **3. Regents' 10-Year CIP**

- Goal is to focus on years 6-10 (and beyond) to inform the Governor's process and set-up USM's project queue for the State's 5-Year plan
- Incorporates Governor's CIP (e.g., planning for future projects) as first step
- Funding targets beyond Governor's CIP are established via statutory calculations ("current funding adjusted for inflation")
- Like Governor's queue, approach is continuity from year-to-year with minor adjustments to the established pattern

## **Focus on Regents 10-Year CIP**

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### **Three step process**

1. Select an appropriate pool
2. Place in tentative priority
3. Review, modify, confirm



## **PRIORITIES BEYOND THE GOVERNOR'S CIP (Focusing on Regents' Plan, #3 above)**

Three step process

1. Select an appropriate pool of projects (staff)
2. Place projects in tentative "strawman" order for funding (staff)
3. Review, modify and ultimately confirm priorities (Chancellor, Board, Presidents)

### **1. Select Candidate Projects**

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- Consistent with Regents initiatives
- Priority in facilities master plan
- Clearly documented need

#### **Result:**

Pool of justified projects for consideration



### **Step #1. Select Candidate Projects (staff)**

Note: This is a continual process of understanding the needs of the institutions, making site visits, comparing reports (SGAP, for instance), etc., so that when the requests come in, we are familiar with most of what we see in those initial submissions.

#### **To be selected as a candidate for funding, a project must be**

- consistent with one or more Regents' capital initiatives
- a priority within institutions master plan
- a documented need, based on reports of
  - Building age and condition
  - Facilities renewal backlog
  - Space deficits in key categories
  - Space available per student, per faculty member, etc.
  - Prior capital appropriations and use of funding

Must look at a wide range of data. There are always exceptions (per FTE student at UMB, for instance) and so there is inherent validity in focusing too closely on one data set as the sole determinant in a funding allocation model. [Per FTE students at UMB, for instance.] And many data sets measure progress toward different goals and, thus, have no common denominator and can't easily be compared one with another (e.g., FTE students vs. Research grant income). That's when purely technical analysis breaks down and where the collaborative (high-level, discussion-based) effort among stakeholders becomes so critical to making the best decisions. More about that in a later section.

**Result of Step #1:** Suitable pool of justified candidates to be considered for funding

### **2. Place in Tentative Priority (year)**

- Begin with previous 10-Yr CIP
- Requests prioritized by institution
- Board respects those priorities
- Board (staff) integrates these priorities
- Priorities relative (e.g., paired rankings)

#### **Result:**

Working Draft designed to facilitate discussion





## Step #2. Place Projects in Tentative Order for Funding (staff)

Key: Begin with previous year's Ten Year Plan

Requests come to Board already prioritized by institutions. The Board maintains relative priorities. Therefore...

Qualified project priorities as requested by institutions are integrated (interleaved or interwoven) by staff into comprehensive draft, based on:

- Projects with prior year funding;
- Projects that reduce deferred maintenance backlog;
- Projects to support targeted enrollment growth;
- Projects with infrastructure in place to support it and/or
- New infrastructure projects;
- Projects with committed external (donor) funding;
- Projects that help progress toward climate neutrality

**Result of Step #2:** A preliminary funding queue for qualified projects (by year) specifically designed to facilitate Board discussion.

### 3. Review, Modify, Confirm

- Collaboration key to success
- Working draft flexible by design
- Involves multiple cycles of
  - Presentation
  - Review
  - Comment
  - Discussion
  - Debate
  - Revision
  - Presentation (etc.)



### 3. Review, Modify and Ultimately Confirm Priorities

The process to this point, while guided by Regents' goals and objectives, is deliberately qualitative in its approach to maintain sufficient flexibility within the staff-suggested queue to allow the Board to discuss, evaluate, and modify the priorities.

The draft is intended to be presented and then critically and objectively discussed, reviewed, debated, and revised—often many times over—during the course of the budget development process, by the Board in consultation with the presidents.

### 3. (continued)

#### Major Review Milestones

March	Institution Submissions
April	Review outcome of FY09 CIP (Presidents, VPs)
May	Initial Draft to Presidents, VPs and Staff
May	Feedback from Presidents
May	Capital Budget Workshop (Regents, Chancellor and Presidents)
May	Follow-up discussion with VPs
June	Follow-up discussion w/Presidents, VPs
June	Regents' Finance Committee (including Presidents feedback)
June	Board of Regents (Vote)

**Result:**  
Ten-Year Capital Program



**Note major milestones in process**

**Result of Step #3:** Ten Year Capital Program

Once implemented, program is reevaluated in terms of effectiveness and reported to the Board and the State via: SGAP, Funding (total and per FTES), project balances, FR project status, etc.

Data are used to inform next year's cycle.

**QUESTIONS?**