

Capital Expenditures CO-UF-PR12

Responsible Officer: Vice President for Administration and Campus Operations

Sponsoring Department: Facilities Management

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Errors or changes to: aim@uta.edu

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PROCEDURE OBJECTIVE

This fiscal procedure provides guidelines for initiating and completing capital expenditures projects from project approval to project closure and documenting the full capital expenditure lifecycle in compliance with UTS168, *Capital Expenditure Policy* and in alignment with state reporting requirements.

RATIONALE

In response to the growth of The University of Texas System, the need for a more efficient, uniform and system-wide capital expenditure policy compatible with state reporting requirements has been developed. The uniform Capital Expenditure Policy and supporting fiscal procedure reduces formerly overlapping reporting requirements at state and System levels, standardizing the approval process for all project types and providing a higher level of ownership and control in the project approval process for The University of Texas at Arlington.

SCOPE

All UT Arlington departments initiating capital expenditure projects and/or participating in the documentation and reporting of those projects.

WEBSITE ADDRESS FOR THIS PROCEDURE

<http://www.uta.edu/policy/procedure/5-16>

RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS

UT System Administration Policies and Standards	Other Policies and Standards
UTS168 Capital Expenditure Policy Regents' Rules and Regulations, Rule 80301 Capital Improvement Program Regents' Rules and Regulations, Rule 80303 Use of the Available University Fund Regents' Rules and Regulations, Rule 80402 Major Construction and Repair and Rehabilitation Projects Regents' Rules and Regulations, Rule 80403 Minor Construction and Repair and Rehabilitation Projects Regents' Rules and Regulations, Rule 80404 Institutional Management of Major Construction and Repair and Rehabilitation Projects	Texas Government Code Chapter 2257 Collateral for Public Funds (The Texas Public Funds Collateral Act) Texas Occupations Code Chapter 162.001 Occupations Code: Certification by Board

CONTACTS

If you have any questions about UT Arlington Procedure 5-16, *Capital Expenditures*, please contact the following departments:

Subject	Office Name	Telephone Number	Email/URL
All topics in Procedure	Facilities Management	Telephone Number	dlodics@uta.edu
Website access	Administrative Information Management	(817) 272-0222	aim@uta.edu http://www.uta.edu/aim

DEFINITIONS

AUF: Available University Fund

BRB: Bond Review Board

BOR: Board of Regents

CIP: Capital Improvement Program

DD: Design/development

DSC: Debt service coverage

GFS: Gross square footage

HEF: Higher education fund

LERR: Library, equipment, repair, and rehabilitation

MP1: Master Plan I

MSRDP: Medical Services Research and Development Plan

OFPC: Office of Facilities Planning and Construction

PUF: Permanent university fund

PPF: Project planning form

R&R: Repair and rehabilitation

RFS: Revenue financing system

SRECNA: Statements of revenues, expenses, and changes in net assets

THECB: Texas Higher Education Coordinating Board

TPC: Total project cost

TRB: Tuition revenue bond debt

Accuracy Factor: Degree to which a cost estimate is expected to err from the final cost schedule. The accuracy factor is expected to be 1.60 or better for conceptual estimates and 1.10 or better for control estimates. For example, a conceptual estimate of \$100 is not expected to err beyond a minimum of \$62.50 and a maximum \$160, and a control estimate of \$100 is not expected to err beyond a minimum of \$91 and a maximum of \$110.

Agenda Database: Web-based tool by which the Board office organizes all agenda items that go before the BOR for approval.

Auxiliary Enterprises Balances: Under the broader umbrella of funding sources, a type of institutional funds comprised of balances that have accumulated from the collection of revenues or fees for such enterprises as student housing, student unions, parking facilities, and recreational facilities.

Available University Fund (AUF): Defined by the Texas Constitution to consist of distributions from the "total return" on all investment assets of the permanent university fund, including the net income attributable to the surface of permanent university fund lands. Two-

thirds of the AUF is constitutionally appropriated to U. T. System. The remaining one-third is constitutionally appropriated to The Texas A&M University System. Also a type of institutional funds under the broader umbrella of funding sources.

Bond Review Board (BRB): The BRB's mission is to "ensure that debt financing is used prudently to meet Texas' infrastructure needs and other public purposes and to support and enhance the debt issuance and debt management functions of state and local entities." All debt issued by the State or its agencies for new construction projects greater than \$250,000 must be approved by the BRB. The BRB also reviews the annual MP1 in conjunction with its annual project report.

Board of Regents (BOR): The University of Texas System Board of Regents. The BOR meets quarterly in the second week of February, May, August, and November. BOR approval is required for any project, as defined by this policy.

Capital Improvement Program (CIP): System-generated report that details UT System's long-range plan to preserve and enhance facility assets. The CIP is a six-year projection of major repair and rehabilitation and new construction projects to be implemented and funded from institutional and System-wide revenue sources.

Cash Requisition Form: OFPC document used to request reimbursements for debt funded projects.

Conceptual Estimate: Preliminary cost estimate used to establish budget for proposed project. The conceptual estimate (in conjunction with the control estimate) generally will serve as a basis for the total project cost (TPC).

Confidence Factor: Degree to which Project Management believes the accuracy factor will be free from revision. A confidence factor of at least 80% is considered satisfactory.

Control Estimate: Cost estimate established during design development and used to manage projects. It is often developed jointly by OFPC Project Management and external parties such as design professionals and construction firms. The control estimate (in conjunction with the conceptual estimate) generally will serve as a basis for the total project cost (TPC).

Conceptual Schedule: Preliminary schedule dates used to establish proposed milestones for the project.

Control Schedule: Construction schedule established during design development and used to manage projects. It is often developed jointly by OFPC Project Management and external parties such as design professionals and construction firms.

DD Approval: Design/Development approval, as typically granted by the UT System Board of Regents. For new construction projects (or repair & rehabilitation projects that are architecturally or historically significant), DD approval is granted by the BOR. For repair & rehabilitation projects that are *not* architecturally or historically significant, DD Approval is granted by the Chancellor, unless the project is institutionally managed, in which case DD approval is granted by the institution president. In all cases, DD approval occurs subsequently to the BOR meeting at which the project was added to the CIP. For new construction projects, DD approval and the appropriation and authorization of funds typically occur simultaneously at a BOR meeting; however, for repair & rehabilitation projects, DD approval occurs outside the purview of a BOR meeting, and after the appropriation and authorization of funds.

Debt Capacity Ratios: Three key financial ratios calculated by the Office of Finance: debt service coverage (DSC), debt service-to-operations, and expendable resource-to-debt. All three ratios are generally calculated based on the institution's updated six-year forecast, with the exception of DSC, which can be calculated based on the project-specific pro forma if the project is revenue-generating (e.g., student housing, parking). In order to receive debt capacity approval, the institution must generally meet two out of three minimum standards, as established by the Office of Finance, or the project itself must meet a minimum DSC standard. The minimum DSC standard is typically less stringent for revenue-generating projects than for non-revenue-generating projects. In order to reflect industry changes and maintain peer group comparability, the Office of Finance reviews and adjusts (if necessary) its minimum standards on an annual basis.

Debt Service Coverage (DSC): The debt capacity ratio that measures actual margin of protection for annual debt service payments from annual operations. DSC is calculated by taking the sum of annual operating surplus (or deficit), plus depreciation expense, plus interest expense, divided by total of principal and interest payments. It is reflected as a times (x) coverage.

Debt Service-to-Operations: The debt capacity ratio that measures peak debt service burden on the annual operating budget. It is calculated by taking peak annual debt service divided by total operating expenses. It is reflected as a percentage.

Delivery Dates: major dates in a project's lifecycle, including: (1) CIP approval, (2) start of programming, (3) appropriation/authorization/DD approval, (4) THECB approval, (5) notice to proceed, (6) substantial completion, (7) operational occupancy, and (8) project close-out. Items (1) through (5) are included in the project approval phase; items (6) through (8) are included in the project completion phase. Item (8) project close-out is the only delivery date that is not required on the PPF.

Designated Funds: See Designated Tuition.

Designated Tuition: Also known as designated funds. Under the broader umbrella of funding sources, a type of institutional funds formerly known as the "general use fee". Institutions may collect a fee per semester credit hour equal to the mandated tuition rate for the general use of the institution.

Discretionary Funding: Any funding source available to support a project that is under the control of the institution and not subject to spending policies imposed by the institution itself, the Board of Regents, or any other authoritative body. Priority for the use of discretionary funding should be given to maintenance of existing facilities, prevention of deterioration, and addressing life-safety issues.

Enabling Legislation: Any type of legislative authority at the federal, state, or institutional level required to impose a fee or enact any other method(s) of producing revenues necessary to support the project

Energy Conservation Financing: See performance contracts.

Expendable Resources-to-Debt: The debt capacity ratio that measures coverage of direct debt by financial resources that are ultimately expendable. It is calculated by taking expendable financial resources divided by debt outstanding. It is reflected as a percentage.

Form 2: Also known as an accounting source document (ASD). "Form 2" is the authorizing document used to record project funding, appropriations, changes to appropriations, movement of funds and expenditures, encumbrances, and in certain cases expenditures and other miscellaneous debits and credits. Upon a project's addition to the CIP, a Form 2 will be generated to record temporary funding, to set up the OFPC management fee, and to move funds to different sub-accounts to cover initial expenditures. When the project receives THECB approval, new sub-accounts will be set up to record project funding. Temporary funding will be removed, and full funding for the project will be set up. *NOTE: With the implementation of OFPC's new project management system, OPUS, this may not be referred to as a "Form 2" any longer, or even needed.*

Form 4/5: Also referred to as Construction Project Completion Report. Form 4/5s are initiated by OFPC upon Final Completion when no more expenses will be recorded against the Project. The institution's assumption of liability from the contractor occurs at substantial completion. *NOTE: With the implementation of OFPC's new project management system, OPUS, this may not be referred to as a "Form 4/5" any longer, or even needed.*

Funding Source: Type of funds identified in the PPF to support the financing of a project. Includes PUF debt proceeds, RFS debt proceeds, TRB debt proceeds, and institutional funds. Although funding sources are selected at the time the project is approved and added to the CIP, funding source *amounts* can be changed with BOR or Chancellor approval (as applicable) at a later date. This does not necessarily constitute the need for THECB reapproval unless TPC has changed by more than 10% or there has been a funding source change. The Office of Finance has established a priority of funding source expenditure in order to allow institutions to earn as much income on debt proceeds as possible prior to expending the proceeds. The preferred expenditure order is: (1) TRB debt proceeds, (2) PUF debt proceeds, (3) Income on PUF debt proceeds, (4) RFS debt proceeds, (5) institutional funds.

Funding Source Change: The addition or deletion of any funding source(s). A change in TPC is not necessary to constitute a funding source change. Typically will require reapproval by THECB if a new funding source is added, or an approved funding source is removed.

Funding Source Table: The summary of funding sources and funding amounts established in the PPF.

Futures List: A section of the CIP comprised of projects for which institutions have identified a need and an estimated total project cost, but which do not have a specific funding sources identified to be used in financing the project. There is no PPF required for inclusion on the futures list.

General Revenue: Under the broader umbrella of funding sources, a type of institutional funds available for projects if two-thirds of the Texas Legislature votes in favor of it and records the vote. These funds are generated by the general taxing authority of the State.

Gifts: Under the broader umbrella of funding sources, a type of institutional funds that may be restricted as to use or unrestricted, depending on the donor's specifications. Per the project policy, gifts cited as a funding source will generally be deemed RFS debt for purposes of debt capacity ratio analysis until the gifts are in-hand.

Grants: Under the broader umbrella of funding sources, a type of institutional funds comprised of federal, state, local, and/or private awards used for purposes specified in the associated agreements

Higher Education Fund (HEF): Under the broader umbrella of funding sources, a type of institutional funds comprised of funds authorized by Article VII, Section 17 of the Texas State Constitution. UT Pan American and UT Brownsville are the only HEF-eligible UT System institutions.

Hospital Revenues: Under the broader umbrella of funding sources, a type of institutional funds comprised of revenues generated by hospitals and clinics at UT Medical Branch - Galveston, UT Health Science Center – Houston, UT M. D. Anderson Cancer Center, and UT Health Science Center - Tyler.

Institutional Funds: Refers to any type of non-debt funding source, including auxiliary enterprises balances, AUF, designated funds, energy conservation financing, gifts, grants, higher education fund (HEF), hospital revenues, insurance claims, interest on local funds, Medical Services Research and Development Plan (MSRDP), Dental Practice Plan (DPP), Allied Health Practice Plan (AHPP), professional fees, parking fee balances, private developer, student union fee, unexpended plant fund, and utility revenues.

Institutionally Managed: A project that is managed by institutional personnel rather than OFPC. A project is automatically designated as institutionally managed (and not included in the CIP, unless it is funded in any part with debt) if it is under \$4 million; however, OFPC will manage such projects if requested to do so. Projects that exceed these thresholds are managed by OFPC unless designated institutionally managed by the BOR. Although OFPC does not manage institutionally managed projects, it could still be involved in the project because OFPC records appropriations and expenditures of debt proceeds on behalf of the BOR.

Insurance Claims: Under the broader umbrella of funding sources, a type of institutional funds comprised of funds collected against claims made on insurance policies.

Interest on Local Funds: Under the broader umbrella of funding sources, a type of institutional funds comprised of interest income earned on funds held in local depositories.

Investment Metrics: Benchmarks laid out by the institution that measure the success of a project in its aim to fulfill an institutional need or achieve some aspect of the mission or strategic plan of the institution. Typically, investment metrics will be predefined for most new construction project categories, however, if a project does not fit easily into any specific project category (e.g., student housing, parking, classroom, etc.), then the institution may petition via the PPF to utilize an Investment Metric of its choosing and description.

Library, Equipment, Repair and Rehabilitation (LERR): Generally refers to library and equipment materials, faculty STARS, or small repair & rehabilitation projects that are approved annually through the LERR budget or annual operating budget, and funded with PUF debt proceeds.

Major Project: Any project that meets one or more of the following criteria: (1) new building construction with a value of more than \$4 million, (2) road, paving, and repair & rehabilitation projects with a value of more than \$4 million, (3) any project determined by the Board to be architecturally or historically significant, (4) any project that is debt financed (RFS, TRB, PUF) regardless of dollar value, and/or (5) any campus planning effort that is intended to result in a capital project meeting one or more of these criteria.

Master Plan 1 (MP1): A facilities-development plan that summarizes planned new construction projects, repair & rehabilitation projects, and land acquisitions as reported by

institutions for the next six years. The MP1 satisfies the project reporting requirements for both the THECB and the BRB, and it is submitted annually by the institutions. It does not include routine maintenance projects, but it does include all of the other types of projects that are placed on the THECB agenda for consideration.

Medical Services Research and Development Plan (MSRDP): Also known as professional fees. Under the broader umbrella of funding sources, a type of Institutional Funds comprised of funds derived from physician fees for services to patients.

New Construction: A project that will result in the addition of gross square footage that was not previously in inventory.

Office of Facilities, Planning & Construction (OFPC): UT System Administration office that maintains the CIP, manages projects, and records project accounting transactions.

Parking Fee Balances: Under the broader umbrella of funding sources, a type of institutional funds comprised of fees collected for parking permits, citations, and transient parking.

Performance Contracts: Also known as energy conservation financing. Under the broader umbrella of funding sources, a type of institutional funds based on a contract with a third party pursuant to Section 51.927 of the *Texas Education Code* to provide energy conservation measures that will generate a guaranteed level of energy savings. Debt may be issued under the revenue financing system for a maximum 10-year period if energy savings can be generated for the period.

Permanent University Fund: A constitutional fund and public endowment created in the Texas Constitution of 1876. It was established through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of another one million acres. Today, the PUF contains 2,109,190 acres located in 24 North and West Texas counties. The assets and earnings of the PUF are dedicated to the uses and purposes of the UT System and the Texas A&M System.

Permanent University Fund Debt (PUF Debt): Bonds and/or flexible rate notes authorized by Article VII, Section 18 of the Texas State Constitution. The debt is repaid by distributions from the permanent university fund to the available university fund. All UT System institutions except UT. Pan American and UT Brownsville are eligible to receive PUF debt proceeds.

President's Letter: Letter signed by institutional president, as well as appropriate executive vice chancellor, formally requesting that a project be placed on the agenda for a BOR meeting. According to *Regents' Rules and Regulations*, Rule 80301, *Capital Improvement Program*, "For Major Projects seeking Board action, the institutional president may submit a request for inclusion on the Board of Regents' agenda, accompanied by a project planning form." The president's letter is submitted at the same time as the PPF. PPFs submitted without the president's letter are considered incomplete and will not be accepted.

Private Developer: Under the broader umbrella of funding sources, a type of institutional funds based on an agreement with a third party that constructs and finances capital improvements on land of the UT System. The System executes a ground lease with the private developer and typically, at the end of the lease term, the capital improvement reverts to the UT System.

Professional Fees: See Medical Services Research and Development Plan.

Project: For purposes of this procedure, any new construction project greater than or equal to \$4 million requesting addition to the CIP, any repair & rehabilitation project greater than or equal to \$4 million (including roads and paving), and/or any project funded in any part with debt proceeds, regardless of amount. Preventive and routine maintenance and equipment replacement and upgrades (including computers) are not considered projects for purposes of this procedure.

Project Lifecycle: The sequence of events from start to finish that all UT System projects are required to undergo. The project lifecycle is characterized by two main phases, the Approval Phase and the Completion Phase.

Project Management: The application of resources, management techniques, and systems to the execution of a project from start to finish. The goal of Project Management is to achieve a predetermined set of objectives for scope, quality, time, and cost, to the equal satisfaction of those involved, i.e., OFPC Project Management, institutional staff, design professionals, and/or construction firms.

Project Planning Form (PPF): A uniform, web-based data collection system designed to gather a complete set of data points pertinent to a specific Project. A complete, current PPF is required to be submitted by the Institution anytime a Project is going before the BOR, including cases of a Project returning to the BOR for additional approvals. The PPF is accompanied by: (1) president's letter signed by the institution president and the academic or health affairs executive vice chancellor, and (2) any required exhibits or attachments such as a project pro forma. The permanent web location of the PPF system is: <https://www.utsystem.edu/FinanceCIP/>. *NOTE: The PPF may also be used outside the Project Approval Phase to update important project information such as TPC increases of less than 10%, changes in expected delivery dates, changes in projected expenditures, etc. These project details will be updated in the CIP at least quarterly by the senior project manager (SPM) or by the institution if the project is institutionally managed.*

Repair & Rehabilitation (Repair & Rehab): Also known as repair and renovation, or R&R. A project in which a portion of the building is renovated. The classic repair & rehabilitation project involves gutting an existing building and replacing electrical, plumbing, heating, ventilation, air-conditioning systems and/or other major components. Road and paving projects, as well as tenant finish-out projects, are also considered R&R for purposes of this procedure.

Revenue Financing System (RFS): Debt program established in 1991 for the purpose of providing a cost-effective debt program to institutions of the UT System and to maximize the financing options available to the BOR. The guiding principle underlying the administration of the RFS is that allocations of RFS debt proceeds for capital improvements shall be contingent upon a BOR determination that the institution can satisfy its proportionate share of the outstanding RFS debt. All capital improvement projects proposed to be funded in part or in whole with RFS debt proceeds must receive a recommendation from the Office of Finance.

Revenue Financing System Debt (RFS Debt): Bonds and/or commercial paper issued as parity debt by the BOR under the revenue financing system debt program.

Student Fee: Under the broader umbrella of funding sources, a type of institutional funds comprised of fees collected to support the operations and financing of a student union or other type of student activity center. Authorization of the fee by the student body is frequently one piece of enabling legislation for student fee-supported projects.

Temporary Funding: OFPC is empowered by the BOR to authorize funding in the amount of 5% of the preliminary project cost (or up to 10% with explicit EVC of Business Affairs approval) for projects approved in the CIP. Temporary funding is typically used to cover expenditures such as programming, advertising costs, initial design costs, and other expenditures that are incurred at the beginning of a project. In the case of debt-funded projects, the institution funds these costs initially and will be reimbursed from debt proceeds after THECB approval. In the case of non-debt-funded projects, the institution may fund these costs but may not expend more than the approved temporary funding amount until after THECB approval.

Texas Higher Education Coordinating Board (THECB): Also known as the Coordinating Board, the THECB meets quarterly in the third week of January, April, July, and October. THECB approval is required for any new construction project with a value of more than \$4 million and any repair & rehabilitation project with a value of more than \$4 million. Projects must obtain reapproval from THECB if the project experiences a TPC or gross square footage change of more than 10%, if there is a funding source change, or if the institution has not contracted for the project within 18 months from final BOR approval date. The THECB also reviews and approves the annual MP1.

Total Project Cost (TPC): Refers to the amount approved by the Board of Regents at the time of addition to the Capital Improvement Program. The TPC is subsequently approved and authorized by the Board of Regents upon completion of design development. The TPC provides for the design, construction, and miscellaneous costs associated with constructing a capital improvement project, including temporary funding in the amount of 5% of TPC (or up to 10% with explicit EVC of Business Affairs approval). The Conceptual Estimate and Control Estimate generally will serve as the bases for the TPC.

Tuition Revenue Bond Debt (TRB Debt): Bonds and/or commercial paper authorized by the Texas Legislature. TRB debt is issued by the BOR under the revenue financing system debt program. Debt service on TRB debt has historically been reimbursed by the State, although the State is not legally obligated to do so. Every two years, UT System requests an appropriation for debt service on TRB debt for projects that were approved during previous legislative sessions. Despite the name, TRB debt is not necessarily repaid from tuition collected at the institutions.

Unexpended Plant Funds: Under the broader umbrella of funding sources, a type of institutional funds comprised of funds that have been deposited from various other funding sources and have been earmarked for construction or physical plant improvements.

Utility Revenues: Under the broader umbrella of funding sources, a type of institutional funds comprised of interdepartmental transfers to the utility department for electricity, natural gas, chilled water, steam, water, and sewer charges.

RESPONSIBILITIES

Assistant Vice President of Facilities Management

- Initializes and develops project planning form (PPFs) in accordance with UT Arlington's Master Plan in accordance with and approved by The University of Texas System Board of Regents

Vice President for Administration and Campus Operations

- Oversees and approves the initial development of all project planning forms (PPFs) in conjunction with the assistant vice president of facilities management

Bond Review Board (BRB)

- Reviews the annual Master Plan1(MP1) in conjunction with its annual Capital Expenditure Plan (CIP).

Board of Regents

- Reviews all projects as defined in this procedure

Offices of Academic Affairs and Health Affairs

- Assist institutions in developing project planning forms (PPF)

Office of Finance

- Reviews PPFs if the project includes any debt or gift funding,
- Assists institutions in building pro formas or updating six-year forecasts
- Provides finding of fact language for agenda items,
- Manages IRS arbitrage spendout compliance.

Office of the Controller

- Organizes and manages the annual request for library, equipment, repair and rehabilitation process

Office of Facilities Planning and Construction (OFPC)

- UT System Administration office that maintains the CIP, manages projects, and records project accounting transactions.

Project Management Team (see VI.B)

- Determines the project scope and prepares the design development control estimate and control schedule. The team is comprised of the vice president of administration and campus operations, assistant vice president of facilities management, associate director of building operations, associate director of construction, and assistant director of environmental health and safety.

PROCEDURES

Section I. General Reporting Requirements and Changes in Reporting

A. State Reporting Requirements

UT Arlington is required to complete a Master Plan 1 (MP1) each year. The MP1 is a reporting tool required by the Texas Higher Education Coordinating Board (THECB) and the Bond Review Board (BRB). The MP1 also serves as a project plan and a summary of facilities-related projects for the next six years, including land acquisitions. The Texas Education Code, Section 61.058, requires that new construction projects in excess of \$4,000,000 and repair and rehabilitation projects in excess of \$4,000,000 be reported in the MP1.

B. UT System Capital Improvement Program Reporting Requirements

Prior to 2008, UT Arlington was required every two years to update a Capital Improvement Program (CIP) that summarized facilities-related projects, excluding land acquisitions, for the next six years. In practice, the document is updated frequently throughout the year via off-cycle revisions approved by the Board of Regents at quarterly Board of Regents meetings. The CIP requires reporting of \$4 million dollars for new construction and repair and rehabilitation unless the project is funded in any part with debt, in which case the project is reported in the CIP regardless of the estimated cost.

C. The new Uniform Capital Expenditure Program

1. Although the rules for inclusion are slightly different, the required project types and financing information are largely identical for the MP1 and the CIP. Because the requirements of the MP1 and the CIP are so similar and because the CIP updates have evolved into a continual process, the CIP has been modified not only to reflect how the CIP is currently updated, but also allows alignment with state reporting requirements. The CIP now provides a comprehensive view of all debt-funded capital expenditure activity at the UT System level. The CIP scope has broadened to include repair and rehabilitation projects funded with PUF debt via the LERR program, regardless of amount; implementation of formal gift funding procedures; replacement of the biennial CIP adoption with an annual CIP status report; and elimination of the Capital Budget portion of the CIP.
2. The new uniform Capital Expenditure Program policy allows reduction in duplication of reporting for UT Arlington and standardizes the approval process for all project types under all financing programs. The policy provides UT Arlington with a higher level of ownership and control in the project approval process. In addition, the uniform Capital Expenditures policy promotes a streamlined process that holistically presents capital expenditure activity in the context of UT System's overall strategic direction.

Section II. Approval Phase

A. Approval and Program Initiation

1. 9-10 weeks before the Board of Regents meeting, UT Arlington's president submits a draft project planning form (PPF) to the Office of Academic Affairs or Office of Health Affairs. The PPF is initiated by the assistant vice president of facilities management. The appropriate office works with UT Arlington to refine the PPF in accordance with capital expenditure policy and procedure guidelines. (see IV, Project Planning Form Information, for detailed use of the PPF.)
2. Facilities Management submits the PPF with a letter from the president, signed by the president and appropriate executive vice chancellor by using the PPF system, along with any other required attachments, i.e. a pro forma if the project generates revenue. (See V. Pro Forma for more information.)
3. 8 weeks prior to the Board of Regents meeting, the Office of Facilities Planning and Construction (OFPC) enters an agenda item into the BOR meeting agenda database.
4. The Office of Finance will provide debt language for any debt-funded project that will NOT return to the Board of Regents. This includes projects such as non-architecturally/historically significant repairs and rehabilitation (R&R), real estate, etc.)
5. 4 weeks prior to the Board of Regents meeting, there will be a liaison meeting with the Chancellor to review the preliminary agenda for the Board of Regents meeting.
6. 3 weeks prior to the Board of Regents meeting, outstanding follow-up responses for agenda items are due to the Chancellor and Board office. All other agenda items will be finalized.
7. 2 weeks prior to the Board of Regents meeting the finalized agenda books are mailed to the regents.
8. At the Board of Regents meeting, agenda items are approved and the Capital Improvement Program (CIP) is updated. With the adoption of the CIP, UT Arlington management is authorized to initiate designated projects in the CIP.
9. Approved new construction and R&R projects that are architecturally/historically significant:
 - a. New construction and R&R projects that are architecturally/historically significant can now spend up to 5% of total project cost (TPC) for design and programming prior to Board of Regents design/development (DD) approval.
 - b. An updated PPF initiated by the assistant vice president is required from UT Arlington to enter into the agenda database 8 weeks prior to the Board of Regents meeting (see I.A.3.).
 - c. The Office of Finance provides "finding of fact" debt language for projects with gift and/or revenue financing system(RFS) funds 6 weeks prior to the Board of Regents meeting.

10. Approved R&R projects that are not architecturally/historically significant generally will not return to the Board of Regents. Funding for these projects is generally appropriated at this time.

B. Appropriation/Authorization/Design & Development Approval

1. New Construction and R&R projects that are architecturally/historically significant:
 - a. The Board of Regents provides design/development approval, appropriates funding, and authorizes expenditures for new construction projects and R&R projects that are architecturally/historically significant.
 - b. The Capital Improvement Program is updated to reflect new information provided in the agenda item, such as DD approval date, that may have changed since the project was initially added to the Capital Improvement Program.

2. R&R projects that are not architecturally/historically significant:

If the project is managed by UT Arlington, the DD and expenditures are submitted to the president for approval. If the project is not managed by UT Arlington, authorization and approval are provided by the Chancellor.

C. Texas Higher Education Coordinating Board (THECB) Approval (if necessary) and Notice to Proceed

1. UT Arlington's assistant vice president for facilities management, with assistance from the Office of Facilities Planning and Construction, submits projects to the THECB if they are greater than \$4 million dollars.
2. If the total project cost/gross square footage changes more than 10%, or the funding source changes, or if there is no contract within 18 months of Board of Regents approval, then THECB approval must be obtained.

Section III. Completion Phase

A. Expending of Funding Sources, Substantial Completion, Removal of Projects from the CIP, and Operational Occupancy

The completion phase of a project's lifecycle varies greatly among projects. The completion phase for most construction-related projects is complex and takes place over the course of several months or years, entailing the expenditure of funds and the subsequent closure of the project. In all cases, debt funding must be fully expended and/or transferred so that the finished project can be closed. The OFPC oversees this process.

1. A project architect/engineer is obtained.

- a. The Committee, comprised of OFPC staff, the assistant vice president of facilities management, and associate directors of facilities management, recommends an architect/engineer.
 - b. UT Arlington's vice president for administration and campus operations endorses the committee's choice.
 - c. The executive vice chancellor for business affairs appoints the architect/engineer.
2. The architect/engineer, with UT Arlington representatives and with assistance from the Office of Facilities Planning and Construction, initiates the pre-design and design phase to produce construction documents that meet UT Arlington's statement of need and project requirements.
3. A project contractor is obtained.
 - a. The committee (see III.A.1.a) recommends a contractor.
 - b. UT Arlington endorses the committee's choice.
 - c. The appropriate executive vice chancellor for business affairs appoints the architect/engineer.
4. The construction schedule of values (SOV) is established.
5. Work begins and invoices and payment applications are submitted on a monthly basis. If OFPC is managing the project, then invoices/payment applications are submitted to them. If the project is institutionally managed, then they will be submitted to the Office of Facilities Management Contract Specialist.
 - a. OFPC-managed projects: payment applications are reviewed by the architect/engineer and the OFPC project manager, then forwarded to OFPC Project Accounting. Project Accounting reviews/audits payment applications against the "general conditions" and other contract requirements. Payment vouchers are created and entered into the project accounting system. Approved payment vouchers are sent to UT Arlington's accounting office, and UT Arlington issues the check from local funds.
 - b. Projects managed by UT Arlington: The process described in the previous step takes place at UT Arlington, outside the purview of the OFPC. Stakeholders complete the various requirements and description information on the forms. The Office of Facilities Management hosts initial scoping meetings with campus stakeholders to define the magnitude of functional and technical requirements for the project.
6. Debt-funded Projects:
 - a. For debt-funded projects, UT Arlington's vice president of administration and campus Operations submits cash requisitions to the Office of Facilities Planning and Construction Accounting on a weekly basis in

order to receive reimbursement for local funds that were used to pay vouchers. (See XI, Cash Requisitions, for more information)

- b. Unless there are unusual circumstances, funding sources should be spent in the following priority order: tuition revenue bond (TRB) debt, permanent university fund, (PUF) debt, income on PUF Proceeds, revenue financing system (RFS) debt, then institutional funds

7. Substantial Completion:

Once a building is ready to be occupied for its intended purpose, a substantial completion form is signed by a member of the OFPC Project Management team, the design professional, and the contractor. Upon substantial completion, the insurance risk is assumed by UT Arlington. Substantial completion signals the completion of all major construction work, and any unencumbered funds remaining in the OFPC-managed accounts may be moved to accounts managed by UT Arlington subject to the approval of OFPC Project Management.

- a. When the project is substantially complete, the contractor, architect/engineer, and the OFPC sign a Substantial Completion Certificate with concurrence from UT Arlington's vice president of administration and campus operations.
- b. The Office of Facilities Management's Space Management Team works with campus stakeholders to assign space for inventory management in order to "componentize" the building.
- c. Substantial completion signals the transfer of ownership and liability from the contractor to UT Arlington.
- d. Substantial completion also signifies the end of capitalizing interest and removal from the capital improvement program.

8. Final Completion:

- a. Final completion signals the end of major construction activities.
- b. All retainage is released to the contractor and final payment is made.
- c. All remaining design professional commitments, technical service commitments, furniture/fixture/equipment costs, and miscellaneous costs are completed, and final payments are made.
- d. A construction audit is initiated. The OFP notifies UT Arlington of any final expenses and moves remaining funds into an account managed by UT Arlington.

B. Project Close-out

1. After UT Arlington-managed, project-related costs are completed, UT Arlington's associate director in charge of the project initiates the project close-out form. After reconciliation between institutional accounts and OFPC Project

accounts, the disposition of remaining funds is determined according to the type of funds remaining.

- a. If remaining RFS or TRB funding is not yet issued, then the authorization simply lapses. However, if remaining RFS or TRB funding is already issued and debt proceeds are on-hand, then those proceeds are either used by the Office of Finance to pay debt service, or they are moved to another fully-authorized project (with necessary UT Arlington and/or legislative approval).
 - b. Remaining PUF funding simply lapses, unless the Chancellor approves moving the funds to another fully-authorized PUF project.
 - c. Remaining institutional funds are returned to the originating source of the funds.
 - d. Once a project is completed and closed, it must be moved from construction-in-process to a capital asset in the financial statements.
2. When a project is completed with no more expenses to be recorded against the project, OFPC will generate form 4/5. There may be numerous substantial completion letters for portions of a project but this does not indicate that a project has reached final completion. NOTE: With the implementation of OFPC's new project management system, OPUS, this may not be referred to as a "form 4/5" any longer, or even needed.
 3. If the project has any remaining funds from PUF, TRB, or RFS Debt proceeds, OFPC will notify UT Arlington and the Office of Finance that the project is being closed and that the funds must be moved out of available funds for construction reimbursement. The Office of Finance may move the remaining funds to the debt service account and apply the funds towards the project's next debt service payment(s), or the remaining funds may be moved to another CIP project with all its necessary approvals in place.
 - a. If there is no remaining debt funding, form 4/5 is initiated by OFPC Project Accounting. The project is closed, and the construction audit is resolved.
 - b. If there is some remaining debt funding from the permanent university fund(PUF), any remaining authorization can be moved to another project, with the Chancellor's approval. If the Chancellor does not approve, the authorization lapses. Form 4/5 is initiated by OFPC Project Accounting. The project is closed and the construction audit is resolved.
 - c. If there is some remaining debt funding from the revenue financing system or tuition revenue bonds and the debt is already issued, then proceeds are moved to another fully authorized project and/or used to pay debt service, with approval from UT Arlington. Form 4/5 is initiated by OFPC Project Accounting. The project is closed and the construction audit is resolved.

Section IV. Project Planning Form (PPF) Instructions

- A. The project planning form (PPF) submitted by UT Arlington's assistant vice president of facilities management initiates the project lifecycle, and it is the primary vehicle through which the Approval Phase is achieved. It also serves as the "Individual Project Summary" page in the Capital Improvement Program (CIP), and is updated (or confirmed) at least quarterly by Office of Facilities Planning and Construction senior project managers to reflect changes to the project (particularly schedule changes) as they occur. Hence, UT Arlington is required to submit a fresh PPF for all Board of Regents agenda items pertaining to a major project, including:
1. Additions to the CIP
 2. Funding source changes
 3. Changes in total project cost of more than 10%
 4. Design/development approvals
- B. The PPF delineates all aspects of the project, namely general information, project description, total project cost, justification, investment metrics, delivery dates, and financial planning. Once submitted, the PPF is reviewed by OFPC, Controller and/or Finance depending on project characteristics delineated in the PPF. Because it contains the information necessary for BOR approval, a current PPF is always required in order for a project to be presented (or re-presented) to the BOR.
1. Access the PPF at <https://www.utsystem.edu/PPFSystem>.
 2. Work with Academic Affairs or Health Affairs to refine project details.
 3. Do not leave any blanks on the PPF. Instead, enter "N/A", or enter an explanation why the data is not provided.
 4. If the project is going to the BOR for DD Approval, appropriation of funding, and/or authorization of expenditure, then provide (1) updated PPF including updated expenditure timeline and any revised delivery dates, and (2) up-to-date financials if it is funded with any RFS debt (a pro forma for revenue-generating projects or a revised six-year forecast for non-revenue-generating projects).
 5. Attach a letter signed by the president and the academic affairs or health affairs executive vice chancellor.
 6. Submit the final PPF with president's letter via the web-based PPF System, along with any other required attachments such as a pro forma.
- C. Regardless of the specific BOR action(s) being requested, the PPF will also designate whether the project is requesting preliminary or final BOR approval, and this designation will be displayed prominently in the agenda item. Since the PPF is the primary vehicle through which the capital expenditure policy is carried out, an incomplete PPF constitutes noncompliance with policy.
- D. A projected expenditure timeline is required on the PPF. Work with the project manager to determine how much of the total project cost (TPC) will be spent in each

fiscal year following its addition to the CIP. All fiscal years must add up to equal the TPC. If/when a project returns to the BOR for additional approvals, projected expenditure timeline and delivery dates must be updated. The projected expenditure timeline (a.k.a., project cash flows) will be updated in the CIP at least quarterly by the senior project manager (SPM) or by UT Arlington's assistant vice president for facilities management if the project is managed by UT Arlington.

Section V. Pro Forma: for Projects that are Fully or Partially Self-Supporting

- A. Pro formas are individually built by UT Arlington's executive director for facilities management with approval of the vice president of administration and campus operation for the specific project in question. The Office of Finance approves debt assumptions, i.e., amortization term and rate.
- B. Forecast should match the length of the debt, i.e. 20 years, 30 years, etc. Forecasts should include all operating revenue and expenses associated with the project. A "net income" should be projected for the project in each forecasted year.
- C. Debt service is forecast on the project using approved debt assumptions.
- D. "Net income" is divided by debt service in each forecasted year. 1.3x debt service coverage(DSC) is targeted for revenue-generating projects. The "two out of three" ratio test generally does not apply to revenue-generating projects, as long as they can meet 1.3x DSC.
- E. Submit the pro forma with a PPF when seeking BOR DD Approval.

Section VI. Permanent University Fund (PUFF) (Non-LERR)

The primary goals of effective cost estimating are to provide accurate data for the institutional evaluation and planning process, a sound basis for BOR consideration, and an accurate baseline tool by which project management can control costs throughout the project execution. Cost estimates are prepared by the Office of Facilities Management's associate directors as assigned by the assistant vice president for facilities management

A. Conceptual Estimate

The preparation of a conceptual estimate is the first step in establishing a budget for the proposed project. The conceptual phase estimate will form the basis by which the BOR considers a project for inclusion into the CIP. While the cost estimate at this stage of the project development is often considered a placeholder, it is recommended that sufficient pre-project planning be undertaken to result in a minimum threshold accuracy factor for a conceptual estimate of 1.60 with a confidence factor of eighty percent (80%).

B. Control Estimate

Once a specific project has been added to the CIP, the design work for the project commences. During this period of time, the Project Management team undertakes a series of actions in order to thoroughly determine the project scope and prepare the design development control estimate and control schedule. Often, the Project Management team will engage external design professionals (architect/engineer team and/or an external construction firm in the case of both design-build and construction-manager-at-risk delivery methods) to assist in the development of the project scope, control estimate, and control schedule. A well-defined project scope, consistent control estimate, and consistent control schedule should result in an accuracy factor of 1.10 and confidence factor of eighty percent (80%).

C. Exceeding the Accuracy Factor

If special programmatic or funding circumstances require that the BOR reconsider an earlier DD approval (i.e., the accuracy factor of the original control estimate exceeds 1.10), such special conditions must be described to the BOR in detail, and a revised control estimate with revised accuracy factor must be presented to the BOR for re-approval.

Section VII. Library, Equipment, Repair, and Rehabilitation (LERR)

When PUF debt is authorized by the BOR, the project must begin construction within 36 months of the authorization date or the PUF debt authorization for that project will lapse, unless otherwise extended by the Chancellor.

Section VIII. Cost Estimates

A. Use of LERR Funding

Only major projects are required to be included in the CIP. Although LERR repair and rehabilitation were formerly (prior to 2008) not defined as major projects, current policy mandates that all construction projects funded in any part with debt, including those funded via LERR, be defined as major projects and included in the CIP.

B. LERR Eligibility

With regard to repair and rehabilitation, only projects with a total project cost (TPC) of less than or equal to \$2 million are eligible for LERR funding. (This policy does not place a limitation on the size of LERR library and equipment projects.) Library and equipment expenditures may be bundled when requesting LERR; however, R&R projects should not be bundled together and presented as one project unless the improvements are all of a like kind (e.g., replacement of elevators in more than one building can be bundled together as one project). PUF will not be allocated to R&R Projects in an amount less than the TPC unless the institution has identified, prior to LERR budget approval, other funding sources sufficient to fund the difference between PUF allocation and TPC.

C. Inclusion of LERR in the CIP

PPF requirements are the same for LERR projects as any other project, except a president's letter is not required for LERR projects; approval in the LERR budget will serve in place of a president's letter. Addition to the CIP for LERR R&R projects is automatically approved, provided that the TPC and funding sources have not changed from the documentation that accompanied the LERR budget (LERR library and equipment projects are not included in the CIP). Once added to the CIP, LERR R&R Projects are subject to TPC change rules applicable to all major projects, as described in Regents' *Rules and Regulations*, Rule 80402, *Major Construction and Repair and Rehabilitation Projects*, i.e., TPC changes may generally be approved by the Chancellor in lieu of the BOR, unless the cost change will cause a variance of more than 10% from original BOR-approved TPC, **and** that variance exceeds \$500,000.

D. Lapsing LERR

Any library and equipment or R&R appropriation not expended or obligated by contract/purchase order within six months after the close of the fiscal year for which it was allocated will lapse and be made available for future system-wide reallocation unless specific authorization to extend the obligation of funds is given by the associate vice chancellor - controller and chief budget officer ("Controller") on recommendation of the president and the appropriate executive vice chancellor. Such specific authorization will extend the obligation of funds for no more than 12 additional months from the time the extension is granted.

Section IX. Gift Funding

- A. Because of the unique nature of gift funding, particularly the unpredictability of the timing and amount of gift receipts, RFS debt is often used to "backstop" gifts, either as interim financing pending actual gift collections or as permanent financing to cover any unanticipated fundraising shortfall.
- B. For projects where gifts have not been received in-hand or firmly committed to be received during construction (as evidenced by a signed gift instrument) at the time of authorization of expenditure, the Office of Finance requires that another acceptable source of funds be denoted in the funding source table in lieu of the uncollected and uncommitted gifts (e.g., RFS debt or institutional funds).
 - 1. For new construction projects, authorization of expenditures occurs in conjunction with DD approval by the BOR.
 - 2. For R&R projects, authorization of expenditures occurs via Chancellor's letter or via president's letter if the project is institutionally managed)
- C. If RFS debt is selected as the alternate funding source, then gifts to be collected in the future must be dedicated to the repayment of the RFS debt, to the extent permitted by the donor.

Section X. Updated Six-year Forecast: To be used for Projects that are not Self-Supporting

Updated forecasts are prepared by the assistant vice president for facilities management in consultation with major stakeholders.

- A. The Office of Finance will provide the most recent six-year forecast on file.
- B. The new project and its incremental debt are added into the Future Debt tab.
- C. Incremental revenues and expenses associated with the project are built into the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA).
- D. At least two out of three of the following standards must be met:
 - 1. At least 1.8x debt service coverage
 - 2. At least 80% expendable resources-to-debt
 - 3. More than 5.0% debt service-to-operations
- E. The updated six-year forecast is submitted with the PPF when seeking BOR DD approval.

Section XI. Cash Requisitions

- A. All necessary BOR and THECB approvals must be obtained.
- B. Debt issuance is requested from Office of Finance.
- C. After debt has been issued, the cash requisition form, found at www.utsystem.edu/fpc, is completed.
- D. An authorized representative must sign the cash requisition form.
- E. The cash requisition form must include the funding source for reimbursement (PUF, TRB, or RFS), timing of expenditure, and type of expenditure (equipment or construction). Equipment expenditures, construction expenditures, and capitalized interest expenditures are listed separately on the cash requisition.
- F. The completed cash requisition form is submitted to OFPC.
- G. Reimbursements wires are generally sent weekly on Thursdays by the Office of Finance, with exceptions made for official holidays, etc.

The project planning form (PPF) is a web-based form permanently located at: <https://www.utsystem.edu/PPFSystem>. Designated UT Arlington staff have access to the system.

APPENDICES

N/A