

BOARD OF REGENTS BRIEFING PAPER

1. Agenda Item Title: Existing Facility Needs

2. BACKGROUND & POLICY CONTEXT OF ISSUE:

In June 2008, the Investment Committee of the Board of Regents asked System Office staff to (1) determine the extent to which current Board Policy provides a reliable mechanism to support a capital renewal program that reduces the backlog of deferred maintenance projects and extends the useful life and functionality of existing facilities, and (2) recommend for the Board's consideration policy and procedural options to improve the functionality and useful life of existing institutional facilities.

In September 2008, the Investment Committee received a report summarizing the results of the System's analysis. The observations include:

- Title 4, Chapter 10, Section 23 of the *Board Handbook* and the procedural document entitled the *Guidelines for Establishing Capital Budget Priorities* establish the processes by which all categories of capital improvement projects are requested and prioritized during each biennial budget cycle. Repairs and improvements for existing facilities, including projects that seek to reduce the backlog of deferred maintenance, are assigned the lowest priority. In periods of austere budgets, projects of this nature have not been funded, and as a result, projects have been held over from one budget cycle to the next, with the costs of the projects increasing over time.
- The ability to assess and plan for a new building's ongoing maintenance costs represents a critical link in ensuring that ongoing funds are available to remodel or repair the facility in the future. Since costs associated with the construction of a new building account for only a part of a facility's overall costs, life-cycle cost estimates that include projections for ongoing repair and maintenance should be included as part of the documentation for all requests for new buildings.
- Facility condition assessments (FCA) represent a recognized, valid, facilities management tool for identifying and reporting facility maintenance and repair needs. A recent FCA of NSHE's oldest buildings completed by the ISES Corporation identified a 10-year backlog of deferred maintenance projects at a cost that exceeded \$500 million. As a result, the backlog of deficiencies identified for existing structures represents a significant financial obligation that exceeds the costs associated with the construction of new space.
- Current funding methods have not been sufficient to reduce the backlog of deferred maintenance or to provide for capital improvements to existing facilities. Board policy provides three primary sources of funds to address facility repairs, infrastructure improvements, and deferred maintenance projects. First, as part of the Capital Improvement Program, a biennial allocation of \$15 million in dedicated slot tax revenues (HECC/SHECC Funds) has historically been recommended by the Governor and approved by the Legislature to repair deficiencies identified in existing buildings. Second, Capital Improvement Fee Funds collected from Student Registration Fees are set aside by the institutions to provide for remodeling, major repairs, or to supplement projects financed through the biennial Capital Improvement Program. And third, institutions may dedicate discretionary or other non-state funds generated in the self-

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supported budgets to support maintenance activities. The operating budget formula dollars ultimately approved by the Legislature are used to hire positions that provide custodial and grounds maintenance for our buildings, and are *not* intended to provide for ongoing preventive maintenance necessary to preserve the 40-year life expectancy of buildings.

- The reality of funds insufficient to maintain existing facilities and infrastructure needs is not unique to Nevada. In beginning to reverse the problem of unfunded deferred maintenance, for example, the State of Arizona implemented a capital renewal formula mechanism to address building deficiencies that takes into account the replacement value, age, and life-cycle costs of the building. Due to competition for General Fund monies throughout the state of Arizona, its institutions of higher education rarely receive 100% of the amount of funds generated by the renewal formula request. However, the formula remains as a goal to work toward, and the amount of funding ultimately approved is determined by the availability of state funds in a given budget cycle.

As a result of these findings, the Committee asked the System Office to prepare policy intended to reduce the backlog of deferred maintenance projects and preserve the useful life and functionality of existing facilities operated by NSHE's institutions. The new policy (copy attached) as presented for the Committee's consideration represents the collaborative efforts of the Business Officers Council and the System Facilities Officers, and is based, in part, on a funding mechanism developed by the State of Arizona. The policy includes a requirement for including in the documentation for all new building requests life-cycle cost projections that identify the incremental maintenance, repair, or remodeling of the facility over time.

3. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

Vice Chancellor Mike Reed recommends the Committee approve a new subsection to Board policy (Section 23 of Title 4, Chapter 10), intended to reduce the backlog of deferred maintenance projects and preserve the useful life and functionality of existing facilities. The new policy, effective during the 2011 capital budget cycle, uses a factor of up to 2% of an institution's insured building replacement value to determine the amount of funding requested during a budget cycle to address the repair or remodel of existing buildings and supporting infrastructure. The policy also requires life-cycle projections for all requests for new buildings. In addition, the policy includes technical changes to existing language contained in Section 23 intended to standardize the terms associated with budgeting for capital improvements.

4. IMPETUS (WHY NOW?):

The approval of the new policy is timely, since implementation procedures will need to be developed well in advance of the next biennial budget cycle in order to ensure conformance with the Board's wishes.

5. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

The details of the significant modifications to Section 23 include:

Subsection 5d, i-iii: Life-Cycle Costs. The purpose of this new Subsection is to require each institution to provide to the Board of Regents a standardized life-cycle cost analysis for each requested new building. The requirement is intended to assist the Board in its evaluation of new

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building requests when assessed in the context of ongoing maintenance costs. The methodology for analyzing the life-cycle costs will be standardized, and a common methodology will be used by all institutions. In the months following the 2009 Legislative Session, the common methodology will be developed by System Administration in concert with the Business Officers to standardize the process by which institutions calculate and analyze the life-cycle costs.

Subsection 6, Existing Facility and Infrastructure Needs. The purpose of this new Subsection is to establish a formula-driven mechanism for requesting capital improvement projects that preserve the useful life or functionality of existing buildings and infrastructure as an integral part of the biennial capital budget process. The formula requirement is effective with the 2011 capital budget cycle and uses a factor of up to 2% of each institution's insured building replacement value as the optimum target for requesting projects of this nature. The HECC/SHECC funding is intended to "stand alone" for deferred maintenance projects that may be completed for \$500,000 or less, and therefore the HECC-SHECC-funded projects represent an addition to the two percent formula threshold contemplated by this proposal. In the months following the 2009 Legislative Session, existing procedures will be established by the System Office in concert with the Business Officers and Facilities Officers to standardize how projects eligible for this pool of funds are identified and ranked by the institutions. It is expected that the distribution of the 2% funding for deferred maintenance and capital renewal will be prioritized based on building age and identified deferred maintenance and capital renewal projects from the System's facilities condition assessment reports developed by the ISES Corporation. Buildings that are 25 years and older are expected to be ranked with higher ranking for completion. Since projects of this nature will compete for funding with requests for new facilities without a separate pool of revenues beyond the statewide capital improvement budget, procedures will be developed to clarify how the projects would be ranked when weighted against institutional needs for new facilities.

Subsection 9, Use of System Facilities for Political Events. The purpose the Handbook modification is to complete a technical correction to eliminate from Board policy language that restates the requirements contained in state law. Since state law may be amended in subsequent Legislative Sessions, Board policy should reference the appropriate statute without restating language that could be subject to change in the future.

6. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

The Committee may recommend further modification to the policy to address specific areas of interest or concern.

7. ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:

None.

8. COMPLIANCE WITH BOARD POLICY:

Consistent With Current Board Policy: Title #4, Chapter #10, Section 23 – Property

Amends Current Board Policy: Title # _____ Chapter # _____ Section # _____

Amends Current Procedures & Guidelines Manual: Chapter # _____ Section # _____

Other: Special Request of the Investment Committee

Fiscal Impact: Yes _____ No:

Explain:

POLICY PROPOSAL
TITLE 4, CHAPTER 10, SECTION 23
Property, Capital Improvement Planning, and Facilities Management

Additions appear in ***boldface italics***; deletions are [~~stricken~~ and bracketed]

Section 23. Property, Capital Improvement Planning, and Facilities Management

1. Vandalism. The Chancellor shall establish procedures concerning the reporting and investigation of damage to NSHE institutional buildings, equipment, or other property.
2. Preliminary ***Capital Improvement Plans***. The Chancellor shall establish procedures concerning the presentation of preliminary ***capital*** [~~construction~~] ***improvement*** plans to the Board of Regents.
3. Naming of Buildings. The Chancellor shall establish procedures concerning the naming of campus buildings.
4. Little Valley. [That] ~~T~~***he*** area of land known as Little Valley shall be retained in perpetuity as a natural wildlife area and shall be used for no other purpose.
5. NSHE Capital [~~Construction~~] ***Improvement Budget Process***.
 - a. Each institution will update its [~~physical~~] master plan every two years and provide the Chancellor and the Regents with a standardized statistical profile describing the physical dimensions of each campus operated by the institution. This profile will include the area (*gross square feet*) by type and age of facility. The Presidents will ***evaluate the results of this analysis to*** identify [~~campus~~] ***institutional*** capital construction needs.
 - b. The Board of Regents will set priorities for the types of space (*classroom, class laboratory, research laboratory, office, and auxiliary space*) needed by the NSHE.
 - c. The Chancellor will apply appropriate NSHE space formulas, including growth in student FTE, to the [~~campus~~] ***institutional*** data to determine the need for space in the Regents' priority areas. Based on the results of these calculations, the Chancellor will propose ***to the Council of Presidents*** a capital [~~construction~~] ***improvement project*** list [~~to the Council of Presidents~~].
 - d. The ***Council of Presidents*** will review the list and participate in the [~~construction~~] ***development*** of the ***systemwide*** capital [~~construction~~] ***improvement project*** request in priority order.
 - i. ***In developing capital improvement project needs, each institution must provide to the Board of Regents a standardized life-cycle cost analysis for each requested new building.***
 - ii. ***The life-cycle cost analysis must estimate the overall cost of ownership by year consistent with the project's quality and function.***

- iii. *The Chancellor shall establish procedures for determining life-cycle cost estimates for capital projects*
- e. The Chancellor will forward a **prioritized** capital [construction] **improvement project** list to the Board of Regents for approval.

6. **Existing Facility and Infrastructure Needs**

Effective with the 2011 capital improvement budget cycle described in subsection 5, every even-numbered year each institution must plan for existing facility and infrastructure needs by requesting funding for capital renewal, plant adaption, and deferred maintenance projects. The budgeted figure for these projects shall be two percent of the insured replacement value for owned facilities five or more years since construction or a major building renovation, excluding storage facilities and auxiliary enterprise buildings (e.g. resident halls and athletic facilities). In calculating the amount budgeted for existing facility and infrastructure, the state revenues requested for Higher Education Capital Construction (HECC) and Special Higher Education Capital Construction (SHECC) are in addition to the two percent threshold, and may not be applied to the amount budgeted for this purpose. The Chancellor shall establish procedures to standardize the manner in which projects associated with improving existing facilities and infrastructure are identified and ranked.

7. Agreement Between Nevada System of Higher Education and State Public Works Board.

The Chancellor shall establish procedures and divisions of responsibility regarding campus master planning, capital improvement programming, the project design process, construction projects, and for projects financed by non-appropriated funds.

[7]8. Use of NSHE Facilities.

- a. Institutional facilities, including campus grounds, are provided primarily for the support of the regular educational functions of the institution and the activities necessary for the support of these functions. The institution's functions take precedence over any other activities in the use of institutional facilities.
- b. Freedom to speak and to hear will be maintained for students, faculty and staff, and University policies and procedures will be used to provide a full and frank exchange of ideas. An effort should be made to allow a balanced program of speakers and ideas.
- c. An invitation to speak at a NSHE institution does not imply that the NSHE or institution endorses the philosophy or ideas presented by the speaker.
- d. Institutional facilities may not be used for the purpose of raising monies to aid projects not related to some authorized activity of the institution or of institutional groups, and no efforts at conversion and solicitation by uninvited non-campus groups or individuals will be permitted on campus.

[8]9. Policy Statement Regarding Use of System Facilities for Political Events.

- a. The primary mission of NSHE and its institutions is to educate students. In that regard, we share a common interest in making public facilities reasonably available for first amendment activities, including political candidates and events. In allowing such use, NSHE and its institutions must use care to avoid the appearance of partisanship, i.e. that the institution favors any particular candidate or party.
- b. Single candidate events should generally be expected to pay standard facility use charges, together with any out of pocket costs, such as security, that the institution incurs as part of the event. The institution should seek advance payment of these estimated costs.
- c. Recognized student clubs or faculty groups may sponsor candidate appearances/events if permitted by institution policy, which may result in waiver of facility use charges under institution policy. Any out of pocket costs incurred by the institution should still be paid. Student governments and institutional business or facilities officers should seek to track such appearances and encourage compliance with Section 7(b) above.
- d. The institution may choose to host multi-candidate events as an educational service to the college or university community and the public. At the election of the institution, these events may be without charge to the candidates, whether for use of the facilities or security, as long as the institution makes its facilities available, if requested, on the same basis to all political parties.
- e. ~~[In addition, NRS Chapter 293, Section 1 as applied to political parties may limit the fees that may be charged as follows: Upon application by a state or county central committee, if a room or space is available in a building that is open to the general public and occupied by the government of this State or a political subdivision of this State or an agency thereof, the public officer or employee in control of the room or space shall grant the use of the room or space to the state or county central committee without charge in a presidential election year for any purpose, including conducting precinct meetings, without charge during other years for the purpose of conducting precinct meetings and at a charge not greater than that made for its use by other groups during other years for purposes other than conducting precinct meetings.]~~ ***Institutions must follow the provisions of Nevada Revised Statutes 293.134 concerning the use of a room or space occupied by State or local government by a state or county central committee.***

[9]10. Disposal of Surplus Equipment

The Chancellor shall establish procedures concerning the disposal of surplus equipment.

[10]11. Equipment Inventory

The Chancellor shall establish procedures concerning the inventory of equipment.