

Minutes
Capital Planning and Budget Committee
Thursday, July 31, 2008

Committee Chair Regent Bartell convened the meeting of the Capital Planning and Budget Committee at 10:00 a.m. in room 1820 Van Hise Hall on the UW-Madison campus. Committee members present were Regents Bartell, Walsh, Drew, Opgenorth, and Vasquez. Regent Falbo also joined the meeting.

Discussion of the 2009-11 Biennial Capital Budget

Regent Bartell opened the meeting by stating that this was a special meeting of the committee to consider recommendations for the 2009-11 Capital Budget prior to approval by the Regents at the August regular meeting. Regent Bartell outlined the objectives for the meeting.

1. Determine the overall amount of General Fund Supported Borrowing to be requested for the 2009-11 biennium.
2. Determine the balance of funding between the three major categories of major projects, utility construction, and maintenance, repair and renovation.
3. Discuss the program revenue and gift-funded projects which are generally supported by various student fees.
4. Discuss the role of gift funds in Major Capital Projects and what role gift funds should play in prioritizing projects.
5. Discuss whether there are funding or process changes that would provide additional revenue streams or speed up the backlog of both major projects and maintenance.

Regent Bartell asked Associate Vice President David Miller to provide an overview of the capital planning process and staff recommendations for the 2009-11 biennia and six-year plan.

Miller stated that the plan accomplishes several goals based upon anticipated General Fund Supported Borrowing (GFSB) from the state. The plan utilizes project ranking criteria approved by the Board of Regents in December 2007 to prioritize institutional requests for limited state funding for 2009-11 and provides a planning framework for 2011-13 and 2013-15. Together these projects constitute a snapshot of the UW System Six-Year Plan.

State General Fund Supported Bonding (GFSB) for all capital projects has declined from \$445 million in 2001-03 to \$393 million in 2007-09 according to charts presented by Mr. Miller. Miller explained that the state's annual general fund bonding capacity is governed by the practice of limiting annual GFSB debt service to 4% of general purpose revenue. He characterized the proposed UW System capital budget as aggressive and stated that it would necessitate a significant increase in GFSB.

Miller explained that UW System institutions requested 60 Major Projects or combinations of projects for GFSB totaling approximately \$1.2 billion for the six years from 2009 to 2015. The 2009-11 Biennial Capital Budget recommends requesting GFSB for 15 Major Projects totaling \$237 million (including \$97.4 million for three projects already enumerated). The capital budget request includes \$130 million GFSB for the UW System share of the state's All Agency Fund for maintenance, repair, and renovation. To accomplish this goal, the total state fund should be \$200 million. It would take over \$200 million for the UW alone to maintain the current backlog of maintenance projects; however,

funding and project management limit the amount of projects that can be accomplished in a given biennium.

Miller concluded the overview by stating that several unknown factors are expected to evolve during the year that will impact the 2009-11 Capital Budget and the six-year plan such as coal-fired heating plant renovations or replacements.

Regent Bartell then turned the committee's attention to a table provided that outlined the specific projects recommended for funding in the 2009-11 Capital Budget. Miller explained that nine of the recommended projects for funding in 2009-11 were already advance enumerated from a prior budget, or a preexisting enumeration request, or were critically important utilities. Those projects total \$184.4 million of the \$237.1 million request. The remaining six major projects were high ranking priorities among those requested by UW System institutions. It was agreed that UW-Milwaukee's priority project would be taken up after all other 2009-11 components were discussed.

Regent Walsh asked if projects have gone out of sequence in past biennia. Miller responded that he was not aware of any projects having been taken out of the sequence presented by staff as a result of Regent action; however, that this had occurred due to legislators' pressure after BOR action in 2003. Regent Bartell encouraged the group to approve a realistic budget and seek to avoid any re-sequencing of Regent priorities by legislators. Regent Falbo inquired if 100% gift-funded projects could be fast-tracked. Miller responded that this could not occur without a statutory change; based on current legislation, these projects need to be enumerated through the capital budget process.

Walsh questioned why consideration of gifts was not part of the project evaluation criteria. Miller responded that the Regent-approved criteria and policies had never included gifts as a factor, however the Legislature has made state funding for certain projects contingent upon gift matching funds in the past. The Regents could choose to create such a requirement.

After general discussion of the priority projects for which funding is sought in 2009-11, the three projects for which Pre-Design will be conducted to inform advance enumeration in 2011-13 were presented by campus representatives. Chancellor Levin-Stankevich described the dire current conditions that would be replaced by a new Education Building at UW-Eau Claire. Interim Chancellor Foster of UW-River Falls discussed the critical need of the proposed Health and Human Performance building that will replace some of the poorest condition classrooms in the System. Miller commented that both projects were on the Regents' priority list in 2005 and have not been constructed due to a lack of funding.

Following a short recess, Regent Bartell asked Chancellor Santiago to provide an overview of recent UWM planning and development efforts and in particular to describe the priority project listed for 2009-11. Santiago gave an overview of constraints on main campus, and opportunities at Columbia St. Mary's (although CSM is currently soliciting private developers via an RFP); in Wauwatosa (UWM-Real Estate Foundation is currently negotiating with the County); near Aurora Sinai (for an Academic Health Center); and near the WATER Institute (for a "Harbor Campus"). The strategy of housing needs being met increasingly by private entities was briefly addressed. The project identified as the campus' highest priority is an Interdisciplinary Research Building yet to be characterized. Chancellor Santiago said the cumulative cost of developing these facilities would exceed \$300 million. Miller added that the draft six-year plan did not include funding for these projects since they were still in the conceptual stage.

Regent Bartell asked Mr. Miller to describe the remaining projects in the capital budget request. Miller briefly described recommended projects through the 2011-13 biennia. Major renovations at UW-Oshkosh and UW-Platteville will be sought in addition to phase-two of the Wisconsin Institute for Medical Research (previously called IRC) at UW-Madison.

Regent Bartell recognized UW-Platteville Assistant Chancellor Rob Cramer to address project requests from that campus. Cramer stated that the campus is working to evaluate its precise space needs as the new engineering building comes online. The campus is also planning to raise about 20% of the cost of projects requested in gift funds. Vice Chancellor Tom Sonnleitner addressed requests from UW-Oshkosh and specifically Dempsey Hall. Sonnleitner characterized the building as the old main of campus and said the project was the number one in late 1990s, but was superseded by the need for the new academic building which has since been enumerated.

UW-Stevens Point Chancellor Linda Bunnell stated that no new buildings have been constructed on campus since 1975. The Noel Fine Arts building was renovated in recent years. Bunnell pointed out that the campus is overcrowded and related academic programs are spread across campus diminishing the ability to collaborate. Bunnell further stated that the inadequate facilities impact academic instruction and recruitment and retention.

Chancellor Bunnell raised the issue of the need for the university and state to reexamine the processes by which projects are delivered and funded. Miller added that the new building at UW-Stevens Point is needed today as well as others in the six-year plan at other campuses. It is only the lack of available resources that prevents them from moving forward. Regent Bartell said that developing facilities at a faster rate to meet the needs of students was a high priority for Board of Regents

Regent Bartell then directed the committee's attention to the role of gift funding for major projects. He pointed out that the Regents do not have a specific policy related to gift funding for capital projects.

Miller provided background on the role of gift funds in past projects at various institutions. Private funds were initially raised to leverage state funds. UW-Madison requested the state to match private funds for targeted projects since the early 1990s. In 2005 the state reduced state funds for several major projects, but allowed institutions to restore building space by raising replacement funds. Miller stated that chancellors preferred that gifts did not become a requirement, but that gifts be used to enhance projects to pay for components that would not ordinarily be funded by the state. Gifts can be used to leverage state funds, but conversely donors can withhold gifts if they do not believe state funds will be committed to projects in a timely manner.

Regent Falbo asked if there was an informal rule that required gift funds to be part of major projects. Miller responded that projects had been successful with and without gifts.

Regent Vasquez questioned the need for requiring a gift match, but pointed out that an institution should receive some credit in the prioritization process for the effort of raising gift funds. Chancellor Wells indicated that even if gifts are raised for building enhancements that in reality by the time the project is built that it simply covers inflationary cost due to the length of time it takes to complete the project. Chancellor Santiago said that donors require assurance that their contributions are not simply replacing state funding but that they are used to augment state funding.

Santiago said that the ability of each campus to raise private funds should be taken into account and that a specific percentage of the project budget should not be established as a threshold.

Regent Falbo asked whether inflation over the planning period was factored into the preliminary project cost estimate. Miller responded that inflation was estimated in the project based on the anticipated construction schedule and the UW System was seeking to place larger complex projects into pre-design which would improve cost forecasting.

Regent Bartell asked Mr. Miller to outline the project recommendations that were not funded with general fund bonds. Miller highlighted the projects that were entirely gift funded and those which are funded by segregated fees and user fees. Bartell asked about the approval process for non-GFSB projects. Miller responded that each is self-supporting and must be approved by the Board of Regents and enumerated by the Legislature. He further stated that projects that are funded with segregated fees must go through the campus approval process before being recommended to the Board of Regents. Several additional projects will be submitted to the board later this year for inclusion in the 2009-1 capital budget that have not yet completed the campus approval process.

The committee briefly discussed the terms under which state bonds are issued for program revenue projects. Miller stated that institutions are increasingly requesting to have bonds issued for 30-year terms (compared to the standard 20-year). Falbo suggested that all project costs should be matched to the useful life of the project and that soft costs such as associated fees should not be amortized over 20 or 30 years.

Finally, Regent Bartell asked Mr. Miller to address the recent developments related to the Charter Street Heating Plant litigation. Miller briefly described the study released by the Department of Administration outlining options available to the state for replacing the plant. In addition there is a study underway evaluating the state-owned heating plants outside of Madison.

The Heating Plant Comprehensive Feasibility Study was prompted as part of an agreement between the Department of Administration (DOA), the University of Wisconsin (UW) and the Sierra Club to analyze the feasibility of alternatives for the Charter Street Heating Plant and other state owned heating plants in Madison, Wisconsin.

Thirteen options for the three existing state-owned heating plants and one option for a new, future heating plant were examined during the study. All these options would bring the Charter Street Heating Plant into compliance with the Clean Air Act. However, no one option ranks first across all the criteria, which include environmental impacts, economic implications and reliability. Miller said that capital costs alone ranged from approximately \$250 million to \$500 million in addition to increased fuel costs. Alan Fish added that because of the enormous cost associated with improvement and replacement that a statewide plan will have to be developed to address both capital costs and operational costs.

Regent Bartell adjourned the meeting at 1:10 p.m.