

UNIVERSITY OF ALASKA

FY14 CAPITAL BUDGET DEVELOPMENT GUIDELINES

INTRODUCTION

Guidance from the Governor for the FY14 Capital Budget is expected to place emphasis once again on deferred maintenance. With this in mind, the FY14 capital budget requests will incorporate much of the analysis and planning work accomplished during the FY13 budget development process, as well as review and reconsider elements not incorporated in the project list for the last two budget years.

UA's long range Capital Improvement Plan will be consistent with the 10-year fiscal plan submitted to the State of Alaska. The plan provides the Board of Regents, President, executive staff, and university community a clear picture of the desired capital projects and the annual operating costs associated with those projects. The long range Capital Improvement Plan aims to balance program needs across UA campuses with realistic expectations.

PRIORITIES

Deferred Maintenance (DM) and Renewal & Repurposing (R&R) is, and will continue to be, the Board of Regents' highest overall priority. Regularly scheduled Annual Renewal and Repurposing funding at a consistent level is necessary to realize UA's sustainment funding goal... an annual investment of \$50 million. Annual R&R funding helps revitalize the life of older buildings that need major system replacements before the systems deteriorate below their intended functionality. A large deferred maintenance backlog, ultimately leads to a loss in facility support for education program delivery, which is mission failure for UA.

Based on previous guidance from the Governor, the Board delayed new construction requests for two budget years. After two consecutive years of forgoing new construction requests, there are programmatic needs arising that must be addressed mainly in the areas of engineering, student life, and infrastructure replacement. Overall, the FY14 Capital Budget Request maintains the Board's priority to address the DM and R&R backlog. We included engineering projects which have already received planning and partial construction funding. Additional new construction projects could be supported by UA in FY14 if outside opportunities (such as housing) present themselves. Any new construction projects will employ an improved capital project planning process which includes a mission area analysis (MAA), statement of need (SON) and statement of requirements (SOR). The guidance found in the main and community campus master plans will be considered in the overall long range Capital Improvement Plan.

During the FY12 and FY13 budget cycles, UA introduced the concept of a perpetual sustainment funding plan for our facilities. There was also discussion on establishing a university building fund. The legislature has been receptive to these ideas. We will continue to refine these concepts during the FY14 budget development process for further discussion and possible action with the Board and the Alaska Legislature.

BACKGROUND

- UA maintains over 400 buildings worth nearly \$3.5 billion as measured by replacement value. These facilities comprise 6.7 million gross square feet and have annual depreciation totaling about \$58 million. More than half of UA's buildings are more than 30 years old. UA estimates an annual investment of \$50 million for facility R&R is necessary to prevent adding to the

deferred maintenance and renewal backlog. Although new facilities are important to the University, annual deferred maintenance as well as facility renewal and repurposing, code corrections, and some upgrades for University equipment has been, and will continue to be, a top capital budget priority.

- Over the past 10 years (FY04-FY13), UA has requested an average of \$95.9 million in state funding for DM and R&R, but only received an average of \$23.9 million. The vast gap between the funding required and the funding received, in current dollars, has elevated UA's deferred maintenance and renewal and repurposing backlog from \$200 million in 2000 to over \$1.0 billion as of September 2011. Extending the life of existing facilities is absolutely essential. The longer UA goes without consistent adequate facilities funding, the faster the deferred maintenance backlog threatens UA with areas of mission failure. That, in turn, impacts annual O&M dollars that become unprogrammatically diverted to the problems.
- Through its operating budget, the University dedicates funding (approximately 1.5% of adjusted facility value) every year to routine and preventive maintenance and repair (M&R). Common industry standards prescribe 2% - 4% of current replacement value as the most appropriate annual investment for M&R. The specific percentage is determined based on various factors such as the age of the buildings, previous renovations, the level of building use, and the climate.

FY14 BUDGET TIMELINE

Below are key dates in the FY14 budget development process. BOR identifies dates for which the Board of Regents will be involved.

June

- BOR - FY13 Operating and Capital Budget Acceptance
- BOR - FY13 Operating and Capital Budget Distribution Plans Approval

July

- Initial discussions with the Governor's Office of Management and Budget (OMB) and Legislative Finance Division on FY14 program themes, fixed costs and capital budget needs
- FY14 MAU Capital Budget Requests submitted to Statewide Budget Office

August

- FY14 MAU deferred maintenance lists due to Statewide Budget Office
- List of expected leased properties and any projects needing potential debt financing
- FY14 budget meeting of the University of Alaska leadership to present and review MAU budget request priorities (to include a presentation by each Chancellor on the expected outcomes in FY13 and a general discussion of their 3-5 year planning horizon)

September

- BOR - First Review of FY14 Operating and Capital Budgets and Capital Improvement Plan
- Formal budget meeting with Governor's Office of Management and Budget (OMB)

November

- BOR - FY14 Operating and Capital Budget Request Approval
- BOR - FY14 Capital Improvement Plan Approval
- Submit Board of Regents' FY14 Budget to the Governor's Office of Management and Budget (OMB)