



**State of Illinois  
Illinois Board of Higher Education  
Committee on Statewide Capital Policies and Priorities**

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**HIGHER EDUCATION  
STATEWIDE CAPITAL POLICIES AND PRIORITIES**

**Report to the Illinois Board of Higher Education  
April 13, 2004**

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## **Preface**

The Illinois Board of Higher Education reconvened the Committee on Statewide Capital Policies and Priorities on October 7, 2003. The Committee initially was established in April 2001, but its work was delayed due to other Board commitments. The Committee was charged to evaluate current statewide facilities policies and recommend revisions, where necessary; review current practices for prioritizing capital budget recommendations; and make recommendations concerning the policies and practices for prioritizing projects in the future. The Committee held five meetings to consider and discuss issues concerning higher education capital needs, funding, and priorities. Its findings and recommendations are offered in this report. Members of the Committee are Thomas Lamont, Jerry Blakemore, James Kaplan, and Kevin O'Kelly. Former Board member Dr. Robert English served as Chair of the Committee until leaving the Board in December 2003.

## **Introduction**

The statutory authority of the Illinois Board of Higher Education (110 *Illinois Compiled Statutes* 205) requires the Board to recommend to the Governor and General Assembly the budgetary needs of colleges and universities for operations and grants and for capital improvements. *Refocusing Higher Education Budget Development* (February 1999) describes the Board's processes in preparing the annual budget recommendations to ensure that budget development is goal-based and responsive, promotes accountability, provides incentives for achieving statewide goals, acknowledges institutional diversity, and is inclusive. While the document identifies the overall framework in which budget development occurs, it does not provide specific information to explain how capital projects are identified for funding and subsequently prioritized within the budget recommendations.

*Setting Capital Budget Priorities* (February 2001) provides a detailed description of the steps the Board has taken in the past in developing the capital budget recommendations and priorities. In that document the Board called for a comprehensive review of the processes for developing capital budget recommendations and establishing priorities. Two factors justified the review. First, the *Master Plan* policies concerning facilities priorities have not been reviewed for many years. The policies are out-dated and fail to reflect some factors that should be considered concerning current and future capital needs, and they lack some clarity with respect to their use in prioritizing projects. Secondly, annual requests to the Illinois Board of Higher Education from public universities, community colleges, and the Illinois Mathematics and Science Academy have increased at rates that far exceed the available resources, and even those requests do not reflect the total capital needs of the institutions.

Requests for capital improvements have exceeded \$1 billion annually since fiscal year 2002 – despite record levels of state support for higher education capital improvements in fiscal years 2000 through 2003. As capital needs for the higher education community along with state agencies continue to grow, there are more pressures on state resources and funding is more difficult to secure. Thus, it is imperative that the Board has clearly stated priorities that support strategic investments in higher education facilities and that the Board's policies ensure accountability and responsible stewardship over state resources.

This report provides a brief overview of higher education facilities and presents historical information concerning state funding for capital improvements. It also describes past practices for selecting and prioritizing capital projects, and presents a series of recommendations concerning the development of capital budget recommendations in the future.

## **Higher Education Facilities Overview**

Illinois college and university facilities support an array of instructional, research, and public service programs. Facilities constitute an institution's largest asset, and provide the foundation necessary to attract top quality faculty, staff, and students. Like the system they promote and support, Illinois colleges and university facilities constitute a physical plant that is large, complex, and diverse. The types of facilities differ by institution in accordance with institutional mission. Some institutions have major research facilities, while others primarily have facilities supporting undergraduate and graduate classroom instruction. Some institutions have residential facilities, while others operate as commuter institutions without facilities for housing students and/or staff. Inasmuch as facilities differ by institutional mission, they also

differ among and within public universities and community colleges based on their condition and age of construction.

Colleges and universities face an array of facilities-related needs each year, ranging from small repairs to major remodeling to construction of new facilities or utilities systems. Minor repairs are needed as buildings age through their normal life cycles. It is important for institutions to address minor repair and renovation needs as they occur, as failure to do so accelerates deterioration and leads to more costly remodeling requirements. Changing programmatic emphases in academic units also creates the need for relatively small remodeling projects, which can be addressed quickly to make existing space more useful for emerging academic priorities.

Buildings and the infrastructure systems that support them have finite useful lives – roofs deteriorate; heating, ventilating, and cooling systems wear out; masonry decays; and lighting systems become inefficient. At a certain point, major remodeling is required to extend the useful life of every facility. Major remodeling projects can also result from the need to enlarge the capacity of a building to change its functional use, to upgrade, or to extend campus infrastructure systems. As technological advances have accelerated, the need to expand electrical and cooling capacity for individual buildings and for entire campuses has grown dramatically. At times buildings may outlive their usefulness for the purposes for which they were constructed, but with remodeling and renovation they can be used for other purposes generally involving less complex functions.

When the cost to upgrade building systems to current state-of-the-art standards for today's instructional and research programs is greater than new construction costs, new construction may be required. New construction also is required to expand significantly the scope of an existing program, to initiate new programs, and/or replace temporary facilities.

Despite differences in size, scope, and scale, public community colleges and universities face a similar array of capital funding needs. They must ensure that facilities are upgraded to take advantage of the latest technologies and that facilities are adequate for the needs of students, faculty, and staff. Institutions are challenged with a \$1.9 billion deferred maintenance backlog, and must work to protect previous investments in facilities. Through all the phases of the budget process – from requests from institutions to the enactment of the annual state budget, these funding needs compete constantly with each other.

Through the *2000 Space Survey*, higher education institutions – along with the Illinois Mathematics and Science Academy – reported information regarding the amount of their owned space, its allocation by type (e.g., classroom, laboratory, office), and its age and their assessment of its condition. Public universities and community colleges reported owning a total of 82.7 million gross square feet (GSF) of space with 52.5 million net assignable square feet (NASF). The Illinois Mathematics and Science Academy reported owning a total of 525,222 GSF of space with 482,257 NASF.

**Public Universities.** State funds support 37.2 million GSF, or 60.8 percent, of the 61.1 million GSF total owned public university space. Public university space that is not state supported includes residence halls, fee-supported auxiliary service buildings, athletic facilities, and facilities maintained with federal grant funds. Of the total NASF of state-supported space, 8 percent is dedicated to classrooms, 25 percent to laboratories, 30 percent to offices, 10 percent each to study and special use areas, 14 percent to general use and support areas, and the remainder to other miscellaneous kinds of space.

The institutions reported that nearly 40 percent of state-supported space was in satisfactory condition, i.e., suitable for continued use with normal maintenance. Thirty-five percent of state supported space at public universities was reported in Remodeling “A” condition (requiring restoration to present acceptable standards without major room use changes, alternations, or modernizations), while 23 percent of state supported space was reported in Remodeling “B” or Remodeling “C” condition (requiring major remodeling and updating).

Table 1 shows that 37 percent of state supported public university space was constructed prior to 1961. The 1960s saw the construction of 11.4 million GSF of public university space with 30.7 percent of the total state supported space constructed in a single decade in response to significant enrollment growth during that period. Over the next three decades, space increased by an amount similar to the growth of the 1960s.

**Community Colleges.** Community colleges reported owning 21.6 million GSF of space in fall 2000. Classrooms comprise 17 percent of NASF community college space, while laboratories comprise 28 percent and study and special use areas 19 percent. Offices comprise 19 percent of the NASF, and general use, support, and the remaining miscellaneous kind of space comprise 17 percent. Community colleges report 10.3 million GSF, or 47.5 percent of their total space, to be in satisfactory condition. A total of 5.4 million GSF, or 24.8 percent, was reported in Remodeling “A” condition. Remodeling “B” and Remodeling “C” condition accounted for 5.7 million GSF, or 26.1 percent, of their owned space.

The Public Community College Act became law on July 15, 1965, and while some colleges and their facilities had been established prior to the new law, 67.5 percent of community college space was constructed in the period from 1961 through 1980. During the last two decades, community college GSF has increased by 39.2 percent.

**Illinois Mathematics and Science Academy.** The facility occupied by the Illinois Mathematics and Science Academy in Aurora was constructed in the 1970s. In the late 1980s and 1990s, residential facilities measuring over 190,000 GSF were constructed to house students. The Academy reported that 69.4 percent, or over 364,000 GSF, of its space is in satisfactory condition.

Table 1  
State Supported Gross Square Footage (GSF) by Decade of Construction

Decade	Public Universities	Community Colleges	Illinois Mathematics and Science Academy	Total GSF by Decade	Percent by Decade
1930 or Before	6,167,410	121,973		6,289,383	12.3
1931 - 1940	1,197,538	241,745		1,439,283	2.8
1941 - 1950	1,410,878	7,075		1,417,953	2.8
1951 - 1960	5,104,740			5,104,740	10.0
1961 - 1970	11,431,512	2,662,706		14,094,218	27.7
1971 - 1980	7,169,944	8,588,346	328,185	16,086,475	31.6
1981 - 1990	2,354,995	752,518	138,825	3,246,338	6.4
1991 - 2000	2,339,248	873,850	58,212	3,271,310	6.4
<b>TOTALS</b>	<b>37,176,265</b>	<b>13,248,213</b>	<b>525,222</b>	<b>50,949,700</b>	<b>100.0</b>

The need to maintain aging facilities and infrastructure, the need to provide space for new and changing programs and technologies, the need to spur economic development, and the need to catch-up on funding not realized during the recession of the early 1990's all serve to complicate the process of developing recommendations and priorities for capital projects. Limited resources must be stretched to meet as many of the needs as possible.

### Funding Capital Projects

A variety of funding sources are used to address college and university capital needs. State statutes create different financial support structures for community colleges and public universities, and thus there is some diversity between the two sectors in how major projects are financed. Funding for capital improvements involving state-supported space at public universities generally comes from a direct state appropriation of state bond, special purpose, and/or general funds. Funding for other public university facilities generally involves federal monies, private gift funds, or bond revenue and student fees. State statutes require community colleges to finance 25 percent of the cost of state-funded projects with local resources. Community colleges have statutory authority to levy taxes for generating revenue to finance capital projects, and may either levy a tax or issue bonds to finance protection, health, and safety projects. State funding for community college capital projects comes from the same revenue sources that support public university and state agency projects. Small repair and maintenance projects at both community colleges and public universities may be financed with institutional operating revenues.

**State Support.** The higher education community saw record high levels of funding in fiscal years 2000 through 2003 and, despite current budgetary constraints, new appropriations for higher education capital improvements in fiscal year 2004 total \$111.7 million. The General Assembly and Governor approved funding for Capital Renewal projects, which benefit all public university and community college campuses, and for the third year of the community college program to replace or make permanent temporary facilities constructed in the early 1970s. The

fiscal year 2004 budget also includes funds for a major renovation project at a public university, for two projects deemed emergencies by public universities and the Illinois Board of Higher Education, and to begin planning the renovation of a building to provide space to meet the needs of increased enrollments for a public university.

Capital appropriations for higher education for the four-year period of fiscal years 2000 through 2003 totaled \$1.3 billion compared to the previous four-year total of \$461.9 million – a 178 percent increase. Yet, when compared to the \$3.7 billion in requests submitted to the Board for the four-year period of fiscal years 2000 through 2003, approximately \$650.0 million, or 18.0 percent, was funded.

State appropriations for capital improvements often include funding for projects not included in the Board's budget recommendations, although the Board may support the projects. This may be due to the implementation of a new program by the Governor or General Assembly or to the identification of additional needs or priorities during the legislative session. Examples include the *VentureTECH* initiative and the Community College Enhanced Construction Program. Although these initiatives were not submitted to the Board for its approval, the Board has supported them.

*VentureTECH* represented a commitment to research and development, biotechnology, health sciences, advanced physics, and information technology and addressed the needs of basic research, construction, and infrastructure. The \$1.7 billion initiative provided over \$800 million to the higher education community, including over \$400 million for capital projects. *VentureTECH* projects at public universities include the Cancer Institute at the Southern Illinois University School of Medicine in Springfield; the Advanced Technology Worker Training Center at Southern Illinois University Edwardsville; the College of Medicine Education and Research Facility, the Magnetic Resonance Imaging Facility, and the Advanced Chemical Sciences Facility at the University of Illinois at Chicago; the Siebel Center for Computer Science, the Post-Genomic Institute, and additions to the National Center for Supercomputing Applications and the Microelectronics Laboratory at the University of Illinois at Urbana-Champaign. These facilities and the resulting need to provide funds for their operations and maintenance illustrate the competing nature of the capital program – the need to provide facilities for new and expanding technologies and programs and the need to be good stewards of the state's investment in existing facilities – and, ultimately, the competition for institutions' operating funds.

The Enhanced Construction Program (ECP) provides funds to reduce reliance on temporary facilities on community college campuses by either replacing the temporary facilities or upgrading and renovating them to permanent facilities. ECP is a \$250 million initiative with \$50 million anticipated to be appropriated in each of fiscal years 2002 through 2006. In April 2002 community college districts reported using 1.6 million gross square feet of temporary space – most of which was constructed in the early 1970s with a useful life expectancy of five to ten years. Renovating and remodeling these temporary facilities, in many instances deteriorated and contributing to the backlog of deferred maintenance on community colleges campuses, may be cost prohibitive. In these instances, the campus will replace the temporary facility. Where warranted, the campus will make improvements to convert the temporary facility to a permanent one.

The implementation of Governor Blagojevich's *Opportunity Returns* plan also may result in funding for new and expanded capital facilities and programs for higher education institutions. The plan consists of the development of ten new major initiatives to address economic and workforce development – specific to ten regions of the state – to spur growth. Recent

announcements have included plans to create a Transportation Education Center for Southern Illinois University Carbondale and a new Quad Cities campus for Western Illinois University.

Table 2 illustrates the differences between institution capital requests and the capital program finally approved for the higher education community. The table also shows the amount of the final appropriation that was recommended by the Board and highlights the magnitude of differences in the amounts appropriated annually for higher education capital improvements. During the thirteen years presented, final appropriations ranged from \$50,000 in fiscal year 1996, a reallocation of a prior reappropriation, to \$412.4 million in fiscal year 2002.

Table 2  
History of the Capital Program  
Fiscal Year 1992 – Fiscal Year 2004

(dollars in thousands)

Fiscal Year	Requests from Institutions	IBHE Recommendation	Governor's Recommended Budget	Final Action	IBHE Recommendations in Final Action
1992	\$ 397,667.0	\$ 276,338.1	\$ 52,748.1	\$ 52,748.1	\$ 52,360.8
1993	423,718.7	220,243.6	50,320.3	58,679.3	58,679.3
1994*	309,838.9	206,592.2	88,151.7	142,691.3	92,951.7
1995	437,166.1	218,557.9	142,894.6	146,845.0	143,275.0
1996	378,103.4	194,645.0	87,475.4	50.0	0.0
1997	471,538.6	237,056.6	148,676.9	158,952.9	149,676.9
1998	603,043.4	284,465.3	126,113.9	148,143.3	141,513.9
1999	665,941.5	240,446.2	145,184.2	154,750.1	141,109.9
2000	714,234.3	319,956.7	161,070.3	318,306.4	216,732.2
2001	894,101.5	443,815.3	171,874.7	218,074.7	141,288.0
2002	1,005,852.1	539,981.3	445,807.7	412,372.9	180,372.9
2003	1,084,012.5	443,657.1	283,691.4	338,341.4	115,891.4
2004	1,213,953.7	341,781.6	107,362.1	111,732.5	59,362.1

\*Final Action includes \$46,189.6 thousand allocated by the Capital Development Board to public institutions for accessibility improvements.

In fiscal year 2002, a year in which appropriations enacted for higher education projects were the largest of any single year in the last two decades, total final action represented 41 percent of the amounts requested and 76 percent of the amount recommended by the Board. However, the \$412.4 million appropriation approved by the General Assembly and the Governor included only \$180.4 million, or 33.4 percent, of the Board's recommendations. Most of the difference is attributable to projects that were part of the *VentureTECH* initiative and the Community College Enhanced Construction Program.

In fiscal year 2004, appropriations for higher education capital improvements totaled \$111.7 million including \$59.4 million for projects recommended by the Board. Most of the difference – about \$50.0 million – is attributable to the Community College Enhanced Construction Program, which the Board continues to support but does not include in its recommendations.

Table 3 illustrates new capital appropriations by total funds committed to new construction and to remodeling and upgrading existing facilities for fiscal years 1992 through 2004. In seven, or about half of the fifteen years, appropriations for infrastructure improvements were greater than appropriations for new appropriations, demonstrating the competition between the need to maintain and upgrade the higher education physical plant and the need to construct new facilities to provide specialized space for new disciplines of study and high demand occupations. The Build Illinois program of the late 1980s and early 1990s, the *VentureTECH* initiative in fiscal years 2001 through 2003, and the Enhanced Capital Program for community colleges brought funds for several new facilities to higher education.

Table 3  
Capital Appropriations by Type

(dollars in thousands)

Fiscal Year	New Construction	Infrastructure Improvements	Total
1990	\$ 101,194.7	\$ 83,371.1	\$ 184,565.8
1991	180,010.5	89,880.9	269,891.4
1992	6,824.4	45,923.7	52,748.1
1993	14,842.9	43,836.4	58,679.3
1994	42,681.2	100,010.1	142,691.3
1995	88,481.8	58,363.2	146,845.0
1996	50.0		50.0
1997	74,140.4	84,812.5	158,952.9
1998	51,971.4	96,171.9	148,143.3
1999	46,451.7	108,298.4	154,750.1
2000	242,161.4	76,145.0	318,306.4
2001	121,314.5	96,760.2	218,074.7
2002	290,696.0	121,676.9	412,372.9
2003	263,768.1	74,573.3	338,341.4
2004	50,000.0	61,732.5	111,732.5
TOTALS	\$1,574,589.1	\$1,141,556.1	\$2,716,145.1

In addition to the competition for funds within the higher education community, higher education capital projects compete with the capital needs of all other state agencies for the limited capital funds that are available each year. A review of publications of the Governor's Office of Management and Budget (GOMB) indicates that capital appropriations specifically identified for higher education projects for fiscal year 2000 were 25 percent of total capital appropriations from the Capital Development, Build Illinois Bond, and Tobacco Settlement Recovery Funds. In fiscal year 2001 the higher education share of total appropriations from the same three funds was 18 percent, increasing to 30 percent in fiscal year 2002. According to GOMB reports, in fiscal year 2003, a year in which new appropriations from Capital Development and Build Illinois bond funds decreased by nearly \$600 million, the higher education community's share of the total increased to 43 percent. And in fiscal year 2004, when total new appropriations from the two funds decreased again – by over \$300 million – higher education received 24 percent of the funds. For the ten-year period of fiscal years 1995 through 2004 the higher education share of

total appropriations from the Capital Development Fund, the primary funding source for higher education capital, has averaged about 33 percent.

### **Selecting and Prioritizing Projects: A Review of Current Practices**

**Institutional and Agency Requests.** In September of each year the twelve public universities, the Illinois Community College Board on behalf of the state's 48 community colleges, and the Illinois Mathematics and Science Academy submit their annual capital requests to the Illinois Board of Higher Education. These requests include specific funding needs and a prioritized list of requested projects. Each institution determines the criteria it will use in developing its priority list.

Public universities consider several objectives when developing their recommendations and priority lists: preventing disruption in daily operations; maintaining and protecting the state's investment; providing a safe work area and adequately controlled environment; providing accessibility improvements; providing equipment to complete state funded facilities; and providing funds to complete projects where funds have been previously appropriated. Universities also consider the need to construct new facilities and to renovate existing space for instructional, public service, and research program activities. Requested projects may fund new facilities for new and expanding programs, or they may fund the renovation of existing facilities to provide necessary technology or specialized space for changing programs. Campus infrastructure also must be sufficient to support university programs and facilities. The magnitude of the needs of the institutions is understated in the requests finally submitted to the Board since each university has already culled the most critical projects from a larger list.

Community college districts submit capital requests to the Illinois Community College Board for its evaluation. The Community College Board identifies projects to recommend for funding, and submits the recommendations to the Illinois Board of Higher Education. The recommendations understate the needs of the community college districts since they generally do not include funding for all the projects requested by the districts.

Administrative rules of the Illinois Community College Board delineate the factors used to develop the recommendation and priority list of community college projects. For requests for new facilities, the Illinois Community College Board considers the type of space requested, core campus needs, utilization of existing space and space per student, and the need for special facilities to house programs. When considering remodeling or rehabilitation of existing facilities, the Community College Board considers structural deficiencies, program space needs, and core campus needs. Requests for land acquisition, utilities projects, and site improvements are evaluated based on the need to support existing campus facilities and services. The priority ranking of a project with previous Illinois Community College Board approval for planning or construction may be given additional consideration. Points are assigned to the criteria, and new projects are added to the priority list based upon the total points assigned to a project in the evaluation process. Projects that remain unfunded from the prior year are reviewed to ensure their evaluation is relatively unchanged.

The requests submitted by the public universities, Illinois Community College Board, and the Illinois Mathematics and Science Academy serve as the base from which the Board develops its annual budget recommendations.

**Statewide Budget Recommendations.** *The Illinois Commitment* and the *Master Plan Policies for Illinois Higher Education* have served as guides in selecting projects to be included in the Illinois Board of Higher Education's budget recommendations. Use of these documents as guides ensures that recommended projects are consistent with and advance state and institutional priorities. *The Illinois Commitment* sets forth statewide goals for higher education and the *Master Plan* provides statewide facilities policies and priorities for higher education. Currently, the *Master Plan* policies state that the Board:

- gives high priority to remodeling;
- requires a clearly demonstrated need due to special program requirements and use and condition of existing space for additional classroom and class laboratory space;
- approves new construction for community colleges on the basis of enrollments, taking into account all permanent space and projected enrollments;
- requires a clearly demonstrated need due to total use, condition of existing space, and special program requirements for additional space for health professions education programs;
- considers state participation in the debt retirement of revenue bonds for public university capital projects a low priority;
- will not approve construction of dormitories for commuter institutions;
- considers state participation in such facilities as outdoor athletic and recreation fields, field houses, and spectator seating at community colleges a low priority; and
- considers several factors, including institutional program direction, student body composition, campus type, total allocation of institutional space, and efforts toward entering into cooperative agreements with other institutions before approving performing arts facilities at public universities and community colleges.

The Board adopted these policies noted above over 25 years ago. While some of the policies remain relevant today, they do not provide a comprehensive and clear statement as to the Board's objectives and priorities. The policies are silent as to institutional priorities and practices, and could be strengthened to ensure a more systematic and transparent process. For example, it is important that the Board recommend projects that have been identified by institutions through their ongoing, established process of assessment and planning. A comprehensive facilities master plan is instrumental in focusing limited resources to an institution's highest priorities. Development of such plans involves careful consideration of the condition of current facilities, how programmatic initiatives or technological advances may affect the needs for the future, and institutional priorities. The institutions' facilities master plans present long-range plans for addressing institutional needs, and the most recent master plan for each institution should be on file with the Board to assist the Board in statewide planning concerning its investment in capital resources.

Once projects are identified for inclusion in the budget recommendations, a statewide priority list is developed suggesting an order for funding the recommended projects.

**Statewide Priority List.** Since the fiscal year 1990 budget, the capital recommendations and priority list have been approved simultaneously. Since a project's position on the approved priority list may increase or decrease the likelihood it will be funded, the Board has worked to ensure projects are prioritized in a fair manner. A number of factors have been considered when developing the statewide priority list, including whether:

- a commitment for a project has been made through prior appropriation(s) or authorizations,
- the status of an ongoing project for which planning or construction funds have been appropriated necessitates that funding be provided to complete the project in a timely fashion,
- the project addresses an emergency infrastructure problem, e.g. problems caused by fire or tornado damage, construction defects, or compliance with life, health, and safety code requirements,
- the project received a high ranking on a public university governing board's priority list, the Illinois Community College Board's priority list of community college projects, or the Illinois Mathematics and Science Academy's priority list, and
- the location of the project on the Illinois Board of Higher Education's prior year's priority list to encourage multi-year, statewide planning through a "living priority" list.

The individual criteria sometimes conflict with each other. For example, institutions frequently change their priorities from year to year. If institutional priorities are followed, maintaining a 'living priority list' that reflects consistent statewide priorities and long-term planning is compromised. Also, the Governor and General Assembly may make commitments for projects through planning appropriations for projects that do not appear on the prior year's statewide priority list or institutional priority lists. In certain instances equipment funds needed to complete a project may not be required until two years following the year in which construction funds were recommended and appropriated. These factors and the growing number and magnitude of important projects make developing the priority list complex and challenging.

Capital Renewal. Consistent with *Master Plan* policies that place emphasis on maintaining and protecting existing higher education facilities, funding for Capital Renewal projects has been assigned first priority by the Board in eleven of the last twelve fiscal years. The Capital Renewal allocation provides each community college and public university with resources to undertake minor improvements to facilities and infrastructure and helps reduce the deferred maintenance backlog.

Emergency Infrastructure Needs. Unforeseeable requests to address emergency infrastructure needs historically have been treated as high priorities by the Board. An "emergency project" is one wherein failure to respond could endanger people or could impede the daily operation of the institution. A recent example of an "emergency project" is the replacement of the electrical distribution system at Eastern Illinois University that was recommended in fiscal year 2004. The age and condition of the system has caused several electrical outages on the campus, forcing academic, residential, and administrative buildings to be out of service for extended periods. Another example, also from fiscal year 2004, is the replacement of high voltage, primary electrical feeder cables at Chicago State University. Failure to respond to the

problem could result in the loss of electrical power for the entire campus. Emergency projects could relate to the remedy of construction defects or damage caused by a fire or tornado and could address regulatory or court-ordered actions.

Completing Prior Commitments. Funds to complete ongoing projects have also been treated as high priorities by the Board. These may include funds for construction where planning funds have been appropriated previously, funds to purchase equipment to complete a new building or major renovation project, and funds to address unforeseen conditions discovered during an ongoing project. These projects may have originated as initiatives of the Governor or General Assembly and may not have been prioritized previously by the Board. In this area of consideration, institutions and Board staff assess the current status of planning and construction for new facilities and major remodeling projects.

The criterion to consider projects where planning funds have been appropriated previously may complicate the process of recommending and prioritizing projects, perhaps more so than any other criterion. Phasing a project may seem desirable under some circumstances. For example, first appropriating only planning funds may provide needed time for an institution to ensure the scope of the project meets its needs. The existence of a planning appropriation generally is perceived as demonstrating a commitment to the project. And, several planning appropriations may be funded with the resources needed for one major new building or renovation project. However, planning appropriations create pressure for out-year funding to complete the project, with the result that fewer projects may receive funding as available new resources are used to complete ongoing projects.

Institutional and Agency Priority Lists. In 1996, the Board of Higher Education agreed to follow, without modification, the priority lists submitted by the Illinois Community College Board, and it has done so. The Board also has considered the priority placed on projects by the public university governing boards and by the Illinois Mathematics and Science Academy.

Previous Year's Priority List. The Board of Higher Education's approved priority list is considered a "living" list. After a project is recommended to the Governor and General Assembly for funding, the Board endeavors to advance its position on the list until it is funded. The Illinois Community College Board similarly advances projects from one fiscal year to the next. When comparing capital requests submitted to the Board, the Board's recommendations and priority list, and, finally, the projects funded by the Governor and General Assembly, it is evident that those requests and the Board's recommendations and priority list become a multi-year plan for capital improvements for the higher education community.

Other Considerations. The capital budget recommendations and accompanying priority list are developed in an environment in which needs and expectations far exceed available state resources, where available funding may fluctuate drastically from one year to the next, and individual project costs are escalating. Since higher education projects compete with requests from all other state agencies, the magnitude of requests must be considered in comparison to what the Governor and General Assembly might reasonably deem affordable when they determine which capital projects will be funded. The Board's fiscal year 2004 capital budget recommendation to the Governor and General Assembly was over \$100.0 million less than its fiscal year 2003 recommendation and almost \$200.0 million less than its fiscal year 2002 recommendation. In recognition of the state's fiscal and budgetary constraints, the Board chose to submit a capital budget recommendation for fiscal year 2004 that more closely mirrored the capital budget for new projects approved by the General Assembly and Governor for fiscal year 2003.

## **Selecting and Prioritizing Projects: Recommendations for the Future**

The higher education physical plant is one of the state's largest assets, comprising a significant proportion of all state-funded facilities. The scope and importance of these facilities necessitates that the Board have clearly articulated priorities and a systematic, transparent process for identifying projects to recommend for funding and for prioritizing projects. The process should encourage long-range planning and protect earlier investments in college and university facilities. It should involve sufficient flexibility for both institutions and the Board to respond to an ever-changing environment. The process should recognize various types of projects, such as:

Life/Health/Safety and Emergencies: The Committee recommends that the Illinois Board of Higher Education give high priority to projects addressing necessary life, health, and safety and emergency infrastructure improvements. An "emergency project" is one wherein failure to respond could endanger people or could significantly impede the daily operation of the institution. Community colleges should be able to utilize the taxing authority afforded to them for addressing such projects, and not be constrained by the current statutory provisions which include taxing authority for protection, health, and safety purposes under tax caps.

Protecting Investment in Existing Facilities: The Committee recommends that the Illinois Board of Higher Education continue to give high priority to protecting the state's investment in existing facilities and infrastructure, including improvements to provide energy efficiencies. Capital Renewal funds should continue to be made available to each public university and community college for smaller, less costly remodeling and infrastructure improvements. Regular Capital will provide funds for major remodeling and infrastructure projects.

Completing Ongoing Projects: High priority should be given to completing ongoing projects which have been recommended by the Board and which have received prior funding.

Construction of New or Expanded Facilities: The Committee recommends that the Illinois Board of Higher Education approve projects that provide additional classroom and class laboratory space at public universities and community colleges only if there is a clearly demonstrated need related to such factors as special program requirements and use and condition of existing space. The Board should consider projects that provide space to support the core mission of the institutions.

Matching Funds: The Committee recommends that institutions place a high priority on funds to match gifts for capital projects.

Governor and Legislative Initiatives: The Illinois Board of Higher Education will support projects and initiatives implemented by the Governor and General Assembly.

With regard to locally funded projects, the Committee recommends the following:

Dormitory Construction: The Illinois Board of Higher Education will consider requests to approve construction of dormitories for commuter institutions on a case-by-case basis.

Debt Retirement: Legislative Audit Commission Guidelines for Public Universities prohibit the use of state funds for auxiliary enterprise (revenue bond) capital projects unless specifically appropriated for that purpose by the General Assembly. The Illinois Board of Higher

Education considers state participation in the debt retirement of revenue bonds for public university capital projects a low priority.

In addition to priorities identified in the *Master Plan*, the Committee recommends the Board consider and include the following when recommending and prioritizing its annual capital budget:

Impact of Current Year's Recommendations. Future appropriations to complete currently recommended projects, along with the estimated fiscal year, should be clearly identified in the Board's capital recommendations. The impact of phasing projects eventually affects the total number of higher education projects that can be funded within limited resources in future years.

Life Cycle Costs. Life cycle costing acknowledges that constructing a building is only a part of the building's costs. It integrates construction costs and operating costs. Life cycle costing would ensure that funds are available in the future to remodel existing facilities. Complicating the concept is the fact that life cycle costing may increase the initial cost of each project, thus reducing the amount of funding available during any given year for other budget initiatives – either bond proceeds for other capital projects or general funds for operations and grants. Unlike in the private sector or when a facility is revenue-producing (e.g., an auxiliary enterprise facility), a mechanism for setting aside funds is not available for future upgrades of building systems for publicly funded projects, and budgetary pressures make the set aside of general funds unlikely for this purpose. Capital Renewal funds are used for the upgrade of building systems, but currently most of those funds are dedicated to the deferred maintenance backlog instead of to forward-looking life costing.

Not only are there limitations on funds available for construction, in years of austere budgets, requests for funds for the day-to-day operation and maintenance of facilities may be viewed as less important than funds for other operations. And, when institutions are forced to reallocate operating funds, the temptation and necessity may be to move funds away from the maintenance of facilities and infrastructure to other operating lines, such as personal services. Deferring maintenance may seem the least painful short-term choice, but this decision over several years results in more and more projects being held over from one year to the next, with the cost of the projects increasing. With nearly 60 percent of the buildings on campuses having been built in the decades of the 1960s and 1970s, it is clear to see how the delay of maintenance and upgrades of these aging structures has resulted in a significant deferred maintenance backlog.

Despite these limitations, the Committee recommends that future requests for new buildings include an estimate of the new building's complete life cycle costs – the costs for its initial construction, daily operations and maintenance and, finally, the major renovations and upgrade of building systems to ensure the building's integrity over its expected life. Building components eventually wear out or become obsolete, and the initial investment in the facility and the day-to-day care of the facility will in part determine how quickly that happens. Design standards that allow maximum flexibility for future remodeling and upgrading are essential to the long life of a building and, where possible and not cost prohibitive, should be incorporated into building plans. Such standards may include vertical chases for future modifications to building systems, tunnels under the first floor and minimum space between the ceilings and floor or roof to maximize access to infrastructure, and paths for maintenance work on roofs. The ability to adapt space as building requirements change helps ensure the durability of the building. On the other hand, while higher upfront costs may reduce operating costs and facilitate future renovations, thereby maximizing the expected life of buildings, this may not be an option if limited funds are available to construct the building.

Various spending guidelines for renewal and replacement of facilities range from 1.0 percent to 3.5 percent of the replacement cost of an institution's physical plant. Funds to address any deferred maintenance backlog would be in addition to the renewal and replacement funds.

The nationally-recognized Space Realignment, Renewal, and Replacement (SR<sup>3</sup>) concept, developed in the mid-1970s and already used by the public universities, provides a formula to determine the amount an institution should be spending, in aggregate, for the renewal of its facilities using the replacement cost of facilities as its base. The concept was developed by Dr. Harlan D. Bareither, now Senior Associate Vice President for Administration – Emeritus at the University of Illinois at Urbana-Champaign. The concept, which is easily understood and simply defined, provides an equitable means to determine renewal needs, assuming adequate funding of operations and maintenance and no deferred maintenance backlog.

After a building is constructed, an institution expends its operating funds for the day-to-day operations and routine maintenance of the facility. When a major renovation of the facility is needed, the state's capital budget normally is the source of funding. The SR<sup>3</sup> concept provides a formula to determine how much should be expended for the remaining expenditure category – capital renewal – the category between daily operations and maintenance and major renovation. This category provides funding for regular replacement of building components that have exceeded their useful lives (e.g., roofs, windows, elevators, and building systems such as plumbing, heating, and electrical) and for reconfiguration of space to address new functional requirements brought on by changes in academic programs or reassignment of space to new uses. Some of these expenditures may be considered bondable and appropriate for funding with Capital Renewal funds provided by the state; others may not.

The formula assumes certain building components (foundation, superstructure, and exterior skin) have an infinite life and account for about one-third of a building's cost. Other components (e.g., heating, ventilating, and cooling system), which account for two-thirds of a building's cost, require replacement on a predictable life cycle of normal use and in response to changes due to program requirements. The formula further assumes that a building will undergo two changes every 100 years – one through the minor renewal and replacement concept and one through a major remodeling. An allocation of one-half of one percent of replacement costs is sufficient to address needs related to deterioration and obsolescence. To address functional changes in space, the need increases to two-thirds of one percent of replacement costs.

Using Capital Renewal Funds as Match for Donations to Remodel and Upgrade Facilities. In an environment where capital needs and expectations exceed available resources, the opportunity to match donations from the private and corporate sectors and from other units of government should be maximized. The use of Capital Renewal funds should be expanded to allow their use to match gifts when those gifts are to provide improvements to the existing physical plant. Within the requirements and limitations of the Legislative Audit Commission Guidelines for Public Universities, the use of Capital Renewal funds should be expanded to allow their use to provide infrastructure improvements in conjunction with auxiliary enterprise revenues. An institution receiving such a donation would reprioritize its needs within the available Capital Renewal appropriations.

Flexibility in Processes for Developing Capital Requests and Priorities. Administrators, faculty, and program needs may change during the period of time a project is progressing up the Illinois Community College Board or the Illinois Board of Higher Education priority lists. The requesting institution should review thoroughly and annually any prior request on a priority list,

and each governing board should allow sufficient flexibility in their capital recommendation and prioritization processes to ensure the scope of the project meets the institution's needs.

## **Conclusions and Recommendations**

The Illinois Board of Higher Education's capital recommendations are an important tool for communicating the Board's policies and priorities to the Governor and General Assembly. The Committee on Statewide Capital Policies and Priorities has reviewed the Board's *Master Plan* and the policies and procedures relating to the preparation of the capital recommendations and priorities and recommends the following policy priorities and objectives, the guidelines for selecting projects to recommend for funding, and the guidelines for prioritizing the recommended projects. The recommended priorities, objectives, and guidelines are designed to ensure accountability and responsible stewardship of state resources:

### Policy Priorities and Objectives

- Each institution of higher education should have adequate physical facilities to engage in those instruction, public service, and research activities consistent with the institution's mission.
- Each institution of higher education shall have a long-range master plan that guides the development of its respective physical plant and capital improvement budget requests and shall provide the master plan to the Illinois Board of Higher Education. Requests for individual projects should be identified in the context of a multi-year capital investment plan. The long-range master plan should address the condition of current facilities and the anticipated future demand on the facilities (e.g., increased enrollments, expanding and new programs and technologies).
- The Illinois Board of Higher Education's recommendations for capital improvements will promote institutional missions and statewide goals as articulated in the *Illinois Commitment* and other policy documents.
- The Illinois Board of Higher Education gives high priority to protecting the state's investment in higher education facilities, including improvements to provide energy efficiencies, thereby decreasing operating costs.
- The Illinois Board of Higher Education gives high priority to addressing necessary life, health, and safety and emergency infrastructure improvements. An "emergency project" is one wherein failure to respond could endanger people or could significantly impede the daily operation of the institution.
- The Illinois Board of Higher Education's recommendations for capital improvements shall recognize the differences in capital needs that exist among and within sectors and institutions, and shall consider allocation of resources by institution and sector to ensure an equitable distribution of funds.
- The Illinois Board of Higher Education, as well as each public university governing board, the Illinois Community College Board, and the Illinois Mathematics and Science Academy, shall build sufficient flexibility in their respective processes for developing

capital requests and priorities to acknowledge changes in institutional projects, project priorities, and needs that arise over time.

- The scope and budget developed for each capital project should incorporate, as possible, the elements necessary to reduce life cycle costs over time and to add to the life of a facility.
- Each institution should utilize the Space Realignment, Renewal, and Replacement (SR<sup>3</sup>) concept to establish goals for funding modifications and improvements to capital facilities.
- Taxing authority for community college Protection, Health, and Safety projects should be excluded from the provisions of the Property Tax Extension Limitation Act.
- Legislative Audit Commission Guidelines for Public Universities prohibit the use of state funds for auxiliary enterprise (revenue bond) capital projects unless specifically appropriated for that purpose by the General Assembly. The Illinois Board of Higher Education considers state participation in the debt retirement of revenue bonds for public university capital projects a low priority.

#### Selecting Projects to Recommend for Funding

- Capital projects recommended for funding shall address a clearly demonstrated need related to special programmatic requirements, enrollment demands, and/or condition of existing space.
- The Illinois Board of Higher Education shall consider the following factors in determining projects to be recommended for funding:
  - ✓ Institutional program requirements,
  - ✓ Student enrollment composition,
  - ✓ Allocation, utilization, and condition of existing space,
  - ✓ Relationship of the project to the institution's facility master plan,
  - ✓ The priority placed on the project by the respective institutional governing board and/or the Illinois Community College Board, or the Illinois Mathematics and Science Academy,
  - ✓ Match requirements for gifts to an institution,
  - ✓ The relationship of the project to an on-going capital project or prior commitment made for the project by the Governor and General Assembly,
  - ✓ The total cost of the project as well any related annual cost for operations and maintenance upon completion, and
  - ✓ Historical comparisons of capital funding.

- The Board will approve additional classroom and class laboratory space in public universities and community colleges only if there is a clearly demonstrated need in terms of such factors as special program requirements and use and condition of existing space.
- The Board will consider requests for projects that provide space to support the core mission of the institution.

#### Developing the Capital Priority List

- The Illinois Board of Higher Education shall develop annually a priority list of capital projects recommended for funding. In developing the priority list, consideration shall be given to whether:
  - ✓ The project addresses necessary life, health, and safety and emergency infrastructure improvements. An “emergency project” is one wherein failure to respond could endanger people or could significantly impede the daily operation of the institution.
  - ✓ The project helps ensure that the state’s prior years capital investments are protected and helps ensure that existing facilities meet current academic requirements.
  - ✓ The project is necessary to complete an on-going project recommended previously by the Board, and the status of the on-going project is such that the completion funds are necessary to complete the work in a timely manner.
  - ✓ The project provides space necessary to accomplish the institution’s core mission and promotes the statewide goals of higher education as articulated in the *Illinois Commitment* or other policy documents.
  - ✓ The project provides state matching funds for donations from other state agencies, the federal government, corporate donors, and private contributions.
  - ✓ The priority assigned the project by the respective institution, public university governing board, the Illinois Community College Board, or the Illinois Mathematics and Science Academy.
  - ✓ The priority placement of the project on the prior year’s priority list developed by the Illinois Board of Higher Education.
- The Board shall support a project it has not recommended previously when the Governor and General Assembly make a commitment to the project as evidenced by an appropriation or authorization.