

UNIVERSITY OF MINNESOTA

INSTRUCTIONS for ALL-FUNDS CAPITAL BUDGET

Office of Budget and Finance
335 Morrill Hall

University of Minnesota

February 2009

A. What is the annual capital budget and the six-year capital improvement program?

The Board of Regents has directed the administration to annually prepare an all-funds capital budget and a capital improvements program for the following five fiscal years. The budget and capital improvement program are intended to facilitate informed investment decisions and to promote effective management of existing capital assets.

The *capital budget* is approved by the Board of Regents each June and includes all planned capital expenditures for the following fiscal year that are anticipated to cost more than \$500,000.

The *capital improvement program* (also known as the six-year plan) brings together academic priorities, facility condition assessments and institutional financial constraints in order to direct prioritized and realistic capital planning and fundraising efforts. The capital improvements program is approved by the Board of Regents each October and includes all major projects. Major projects are defined as projects costing more than \$2 million dollars or having any of the following characteristics:

- legislative capital funds
- University debt
- broader campus impacts
- neighborhood impacts
- strategic programmatic implications

The identification of projects eligible for inclusion in the six-year capital improvements program occurs through the compact process.

B. What is a capital project?

A capital project is defined as any non-recurring capital expenditure for the acquisition, construction, or improvement of a permanent facility. Capital projects fall into four categories:

- Property acquisition (land and buildings),
- New construction (whole building, building additions and infrastructure),
- Renovation (existing facilities), including programmatic, and code-required improvements.
- Building system and infrastructure renewal (existing facilities) including roofs, windows, walls, mechanical-electrical-plumbing systems, etc.

C. Which projects must be included in the capital budgeting process?

All projects meeting either of the two criteria listed below must be submitted to the capital budgeting process:

- *All capital projects using central or state funding, regardless of size.*
- *All capital projects which exceed \$500,000.*

D. How are projects submitted to the capital budgeting process?

Each year the Budget Office requests from each Vice President and Chancellor a list of the projects they would like to have included in the annual capital budget. The project lists are collected and reviewed for technical issues by the Capital Oversight Group. Projects will then be reviewed by the President's Executive Committee and the Faculty Senate governance structure during April and May as the President prepares his recommendations for the Board of Regents.

The form used to submit projects is included as *Attachment A: Capital Budget Project Submittal Form*.

E. What information is required for each project?

The capital budgeting process has taught the University that its most successful projects are those that have undergone a rigorous programmatic, financial and physical planning process.

All projects in the annual capital budget are required to have completed a predesign study. Predesign is a systematic process for defining the programmatic, physical, and financial elements of an individual capital project, as well as its impacts on the broader environment, prior to initiating design work. Preparation of a predesign is a collaborative effort of the college or service unit that is proposing the project, the faculty and staff who will use the facility, and central administrative staff.

Although all projects costing more than five hundred thousand dollars require a predesign, requirements vary based on project complexity. The predesign program for relatively simple projects, such as the remodeling of a laboratory or an office suite, may be very brief. Proposals for major capital investments, (i.e. construction of a new facility, renovation of an entire building) and for projects with debt, legislative, master planning, neighborhood or strategic programmatic implications will require a more detailed predesign. Any project with self-financing obligations will be required to include a fundraising feasibility statement (prepared in cooperation with the University of Minnesota Foundation) in the completed predesign. Predesigns for major capital projects are reviewed by the COG and approved by the Executive Vice President and Provost, in consultation with the appropriate deans and vice-presidents or chancellors.

To begin predesign, submit a Form 1395 to Capital Planning and Project Management (<http://www.cppm.umn.edu/>). Units should note, however, that predesign for major projects can only begin when a project has been included in the annual six-year capital improvement plan. Major projects are defined as those projects that cost more than \$2 million dollars or have any of the following:

- legislative capital funds
- University debt
- broader campus impacts
- neighborhood impacts
- strategic programmatic implications

For more information on the predesign process and requirements for beginning predesign, contact Orlyn Miller in University Planning at 612-624-7501.

F. Which projects will be included in the Annual Capital Budget?

To be considered for inclusion in the capital budget, the following conditions must be satisfied:

- Proposed construction projects must have a predesign that includes a program statement and a comprehensive cost estimate prepared by or under the direction of Capital Planning and Project Management. Proposed land or facility acquisitions must have an appraisal approved by the Real Estate Office.
- Proposed projects must either have all funds in-hand or an approved finance agreement with the Office of Budget and Finance.

Unless both of these conditions are satisfied, the project will not be included in the annual capital budget.

Prior to Regents' approval of the capital budget, the Office of Budget and Finance will verify the availability of funding for projects which are dependent upon state and University funds. Departments and auxiliaries will be asked to verify the availability of funding for projects to be financed with departmental funds or with fees collected by self-supported auxiliaries by providing a CUFS account number, or by identifying a foundation account, a grant application, or a fund raising effort.

Projects must be included in the annual capital budget before design and construction can begin. Projects which are not identified at this time will be deferred to next year's budgeting cycle. Only in extraordinary circumstances will projects be considered as amendments to the approved capital budget during the course of the year. Budget amendments require special review and recommendation by the COG, the president, and approval by the Board of Regents. Implementation of a project cannot proceed until it has been included in the capital budget.

G. How are equipment purchases to be handled?

Purchases of freestanding instructional and research equipment, even those large enough to be categorized as a "capital expense", should be funded through the operating budget, and should not be submitted to the capital budgeting process. None of the funding sources available for allocation through the capital budget are available for freestanding equipment purchases.

If the equipment purchases being considered will require adjustments to building systems (examples: expanded electrical capacity, HVAC modification) or remodeling of space, those facility improvements should be submitted to the capital budgeting process in accordance with the definitions regarding project size and funding source contained in Section C. A department purchasing equipment which requires building adjustments must be prepared to also fund the necessary building modifications.

H. How are self-funded projects of less than \$500,000 handled?

Self-funded projects of less than \$500,000 do not require individual approval by the Regents, and are, therefore, excluded from the capital budget process. These projects are handled administratively by Capital Planning and Project Management (CPPM). Projects are initiated by submitting a Form 1395. The form is available at: <http://www.cppm.umn.edu/>

If during the planning and design stage the cost of a project increases beyond the \$500,000 threshold, the project will be considered in the next capital budgeting cycle, or if the need is urgent, it may be handled as an amendment to the capital budget, requiring the concurrence of the senior officers, and the approval of the Board of Regents.