

To: Vice Presidents, Chancellors, and Deans

From: Richard Pfutzenreuter, CFO and Treasurer
Kathleen O'Brien, Vice President
Robert Jones, Senior Vice President

Re: FY 2013 Annual Capital Improvement Budget

Date: February 22, 2012

This letter announces the annual opportunity for units to submit capital projects for inclusion in the FY 2013 Annual Capital Improvements Budget. The capital improvement budget is reviewed and approved by the Board of Regents annually in May / June and includes all planned capital expenditures for the following year where total project costs (design costs, construction, management fees, etc.) are anticipated to cost more than \$500,000.

As a reminder, the annual capital improvement budget only includes projects that:

- * are estimated to cost more than \$500,000
- * have a completed and approved predesign study through Capital Planning and Project Management (completing schematic design is encouraged)
- * have all of their funding either "in-hand" or have an approved finance agreement
- * are ready to proceed into design and construction

The capital improvement budget process is NOT the place to advance major new capital project proposals for inclusion in the six-year capital plan. In order to better align academic and facility planning, units wishing to submit projects for inclusion in the six-year capital plan should identify their capital priorities in their compact document.

It is important for units to understand that for all capital projects including legislatively funded projects, the University's budget model assigns to the project sponsor all cost associated with meeting any debt obligation as well as ongoing operating costs. These costs will appear as part of the cost pool charges for that unit at the appropriate time.

As a reminder, units are required to coordinate with Capital Planning and Project Management (CPPM) and University Budget and Finance regarding the start date for capital projects.

- o **State Funded Projects:** In the past, the University has allowed actual construction to commence or for significant expenditures to be incurred for a project prior to the actual issuance of debt for the units one-third obligation on the project or prior to any concrete assurance from the State of Minnesota that it will

fulfill its obligation for the two-thirds share of the project. Current financial circumstances have warranted a reexamination of this practice and the University is carefully monitoring its own cash flow requirements. As you know, the state provides its two-thirds share through the issuance of state bonds. In a similar fashion to our past practice, the state has allowed recipients to pre-spend on projects prior to its issuance of state debt for state sponsored projects. The state currently faces significant cash flow problems and we have heightened our concern about the state's ability to reimburse the University on a timely basis for expenditures made in advance of the state issuing debt for their share of capital projects.

- **University Funded Projects:** For projects financed 100% by the University, units will need to contact the budget office regarding a start date for their project. This requirement will apply regardless of whether or not the project is depending on University issued debt or is totally reliant on local unit resources. The University has implemented this practice as a precautionary measure to better manage institutional cash flow. For those projects depending upon the issuance of University debt it will be critical that you contact us as soon as possible. The University typically issues debt in the November/December timeframe due to the need for the most up to date annual financial statements which are required by rating agencies. We understand that this may impact the start date of your project and could push the project into a different construction schedule or season. We want to assure you that we will do the very best we can to ensure delivery of your project on your optimal schedule and reflecting the lowest cost possible.

If you have a project that you wish to include in the annual capital improvement budget but have not started a predesign, you will find information on how to initiate a capital project in Section D of the attached capital budget instructions.

To facilitate the development of the capital improvement budget, and to minimize the number of capital budget amendments that must occur during the course of the year, please:

- * Distribute these instructions to appropriate personnel within the units that report to you. Instructions are being sent to Vice Presidents, Chancellors, Deans, and RRC managers. Instructions are not being sent directly to directors and department heads because you may wish to provide supplemental instructions and time requirements.
- * Collect all capital projects within your area of responsibility, and return the list electronically (see attached form) to the appropriate Chancellor / Vice President by **Friday March 16, 2011** in order for them in turn to be forwarded to Ryan Trullinger (trul0002@umn.edu) in University Services Finance by **Friday April 6, 2012**. The project lists will be 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 in April as the President prepares his recommendations for the Board of Regents.

All requests must be channeled through the appropriate vice presidents and chancellors for review.

Specific questions regarding the capital improvement budget process or the status of previously submitted projects should be directed to Ryan Trullinger in University Services Finance at (612) 626-4156 or Dean Carlson in Capital Planning and Project Management at (612) 624-9555.