



**SENATE RESEARCH CENTER**

03/21/06 08:45:00  
RECEIVED

March 21, 2006

**FROM:** Betsy Heard, Research Specialist

**Subject:** State Survey of Higher Education Facility Funding

---

Attached is the product of the state facility funding survey compiled by the Senate Research Center. Thanks for your help.

Please call Betsy Heard if you have any questions at (512) 475-3744.

xc: SRC file  
Hied: FIN

## *State Higher Education Facility Funding Survey*

### **Alabama**

Alabama provides no regular source of funding for capital projects at institutions of higher education (IHEs). Occasionally the Alabama Legislature approves a bond issue, but the last major one was passed in 1998. Institutions may spend their annual operations and maintenance appropriations for capital projects although most of those funds are actually used for salaries and other regular operating costs. As a result, IHEs fund building programs through tuition and fees, capital campaigns, and bond issues that they float themselves. The debt service on these bond issues is paid from tuition and fees, auxiliary sources, and other sources.

#### Source:

Susan J. Cagle, Director of Institutional Finance & Facilities, Alabama Commission on Higher Education

### **Colorado**

Tight budgets in recent years have decimated funding for university construction and maintenance in Colorado.

The Capital Construction Fund (CCF) for university construction receives revenue from ongoing statutory general fund transfers, general fund appropriations, lottery, federal funds, excess general fund reserves, tobacco settlement money, CCF interest, and unexpended capital appropriations. In the five-year average since fiscal year (FY) 2000-2001, CCF revenues have declined 92 percent from the previous five-year average. The CCF has received negative appropriations leaving interest accruing to the CCF, unexpended balances, and other sources mentioned above to provide capital funding.

In 1993, the legislature established the Controlled Maintenance Trust Fund (CTMF) to supply a stable source of revenue for maintenance projects. Legislative appropriations and earnings built the CTMF balance to nearly \$250 million, but in FY 2001-2002 and FY 2002-2003, the legislature reduced the balance to less than \$300,000. This year, the balance will again be transferred to the general fund. For FY 2005-2006, \$21 million was appropriated to address critical life/safety and program needs.

Starting July 1, 2003, under H.B. 02-1310, CCF began receiving one-third of the excess general fund reserves that existed on July 1 of each fiscal year.

Among other sources for construction and renovations, universities have access to money from indirect cost recoveries, gifts, grants, and donations. Also available are revenue bonds and certificates of participation for auxiliary projects such as residence halls, parking lots and structures, student centers, recreation centers, bookstores, and other activities that generate sufficient revenue to repay such bonds.

#### Sources:

Joan Johnson, Director of Capital Assets & Governing Boards, Colorado Commission on Higher Education.

Moe, Jennifer, "20-Year History of Capital Revenue and Appropriations," Colorado Legislative Council Staff memorandum, February 22, 2006.

## **California**

**Capital Support** - General obligation bond issues submitted to the voters every two-to-four years after approval by the governor provide capital funding for The University of California (UC), California State University (CSU), and California Community College (CCC). Lease-revenue bonds, with the cost of amortization paid by students, provide the funding for residence halls and other revenue-producing facilities. The segment boards review and approve both a state-funded and a non-state-funded capital plan. The state-funded plans are subject to detailed review by the department of finance and the office of the legislative analyst. Capital funding is then appropriated in separate line items from the operating budgets. CSU and UC have considerable autonomy over their non-state-funded capital outlay plans. Capital outlay for CCC is funded by a combination of state bond revenues and local bonds. The vast majority of funding comes from local funds. Local districts have found strong support lately for this method of financing capital needs.

Source:

Richardson, Richard C. Jr., Nancy Shulock, Robert Teranishi, and Shaila Mulholland.

*Public Policy and Higher Education Performance in The State of California: Organizational Performance and Policy Decisions in Canada, the U.S., and Mexico*, p. 16-17, Alliance for International Higher Education Policy Studies, Institute for Education and Social Policy, New York University, March 2005.

## **Connecticut**

In Connecticut, the primary source of funding for facilities and other projects for institutions of higher education is general obligation bonds, including UConn 2000 and 21<sup>st</sup> Century bonds which are financed with state tax revenues. However, higher education institutions have access to other funding sources including self-liquidating bonds, special obligation student fee revenue bonds, gifts and donations, and auxiliary enterprise funds. In the case of self-liquidating and Connecticut Health and Education Facilities Authority (CHEFA) bonds, student fees are the major source of funding.

The Connecticut State University System can finance capital projects through CHEFA (CHEFA CGS Sec. 10A-89b). This power was granted through Public Act 95-270 and became effective July 1, 1995.

Only the University of Connecticut can borrow money and issue securities (CGS Sec. 10A – 109D). This power was granted as part of the UConn 2000 legislation which became effective June 7, 1995, under Public Act 95-230.

Source:

Thomas J. Mangiafico, Connecticut Department of Higher Education.

## **Florida**

In the past, funds were appropriated to the State University System (SUS) from the Public Education Capital Outlay (PECO), General Revenue, Educational Enhancement (lottery), SUS Construction Trust Fund Interest Earnings, and Capital Improvement Fees (CIF), which includes building fees and is part of the student registration fee.

Effective with the 2002-2003 fiscal year, budget authority for student tuition collected and deposited in the student fee trust fund and various other trust funds are no longer appropriated in the General Appropriations Act (GAA), leaving only four sources of funding in the GAA: General Revenue, Educational Enhancement Trust Fund (lottery), Major Gifts Trust Fund, and the Phosphate Research Trust Fund.

In Florida, PECO funds provide the largest source of legislative appropriation for higher education projects. PECO funds are derived from gross receipts taxes, bond sales, and interest earnings. In fiscal year 2005-2006, PECO provided 57 percent of funding for new construction for research and instruction. Concurrency funds are monies routed through universities to pay the costs of PECO projects as well as other public facilities on local government infrastructure, such as roads, water and wastewater, and electricity capacities. Student unions and recreation facilities are usually funded by non-state money derived from student capital improvement and building fees.

Postsecondary institutions can use revenue generated by parking garages, housing, dining, and athletic facilities to pay debt service.

In fiscal year 2004-2005, the Florida Lottery transferred more than \$1 billion to the Education Enhancement Trust Fund, making the lottery's total contribution \$15 billion since its inception.

Pursuant to Section 1011.4105, Florida Statutes, state universities may leave the Florida Accounting and Information Resources (FLAIR) to a university accounting system effective July 1, 2003. Five universities (University of Southern Florida, Florida Atlantic University, University of Central Florida, Florida Gulf Coast University, and New College of Florida) migrated to their own system on July 1, 2003. The remaining six universities (University of Florida, Florida State University, Florida A&M University, University of West Florida, and University of North Florida) moved to their own systems on July 1, 2004. According to Section 1011.90(4), Florida Statutes, the "Expenditure analysis, operating budgets, and annual financial statements of each university must be prepared using the standard financial reporting procedures and formats prescribed by the State Board of Education. These formats shall be the same as used for the 2000-2001 fiscal year reports." The state board of education adopted these standards procedures and formats on May 20, 2003.

The web site to access Florida Statutes is <http://www.flsenate.gov/statutes>  
Funding for educational facilities FS 1013.60 legislative capital outlay budget request  
Concurrency (payment to local governments for local impacts on utility services) FS 1013.63  
Funds for remodeling and renovation FS 1013.64  
Allocation of funds Public Education Capital Outlay (PECO) FS 1013.65  
Funds from Student fees for fixed capital projects FS 1013.74  
Matching funds for funds received from private sources FS 1013.79  
Financing by Foundations (Direct Support organizations DSO's) FS 1004.28; 1001.74; 1013.78;  
1013.171; 1013.15  
Authority for Issuance of revenue bonds by universities FS 1010.60

Source: Kenneth Ogletree, Florida Board of Governors Staff.  
Florida Lottery, Education: More than \$15 Billion to Education. [www.flalottery.com](http://www.flalottery.com).  
Table 39.--History of Appropriations to the State University System for Fixed Capital Outlay, 1986-87 through 1995-96

## **Indiana**

Facilities that serve academic or administrative functions are generally funded by cash appropriations, fee-replaced bonding, gift funds, or institutional fund balances. In addition, the 2002 General Assembly authorized the use of grant income as a source of debt service for medical research facilities related to a school of medicine (SEA 501). Prior to the Acts of 1965 (IC 20-12-6), which set forth the requirements for bonding academic/administrative facilities, most state funding for college and university facilities was in the form of cash appropriations. Since the passage of the Acts of 1965, and particularly since the mid-1970s, the overwhelming majority of state-funded facilities have been financed through fee-replaced bonding, so called because the institutions must collect student fees at a level necessary to meet debt service obligations, and the fees are then “replaced” by state appropriations equal to the required debt service payments.

Projects that are funded by cash appropriations or through the issuance of bonds with the understanding that the state will appropriate debt service to retire the bonds must be authorized by the General Assembly. Projects that are not financed through state funding or mandatory fees do not require General Assembly authorization. All bonds issued under the Acts of 1965 must be approved by the state budget committee, the state budget agency, and the governor. The bonds are issued in the name of the institution issuing them rather than the State of Indiana or its related financing authorities and commissions and do not enjoy general obligation status. Most projects that serve auxiliary functions are funded through gift funds, operating revenue, or student fees. Examples include residence halls, parking garages, auditoriums and performance facilities, student unions, and athletic facilities. If they are bonded rather than cash funded, these projects are normally bonded under the authority of the Acts of 1927 (IC 20-12-8) or the Acts of 1929 (IC 20-12-7), though some are bonded under the Acts of 1965. Projects bonded under the Acts of 1927—including dormitories, residence halls, food service facilities, parking garages, and medical research facilities associated with a school of medicine—do not require General Assembly authorization, while projects bonded under the Acts of 1929—including athletic field houses, student unions, and “halls of music”—do require that the General Assembly authorize the principal amount of the projects. In each case, as with the Acts of 1965, the bonds sold to finance the projects must be approved by the state budget committee, the state budget agency, and the governor.

### Source:

Introduction, Indiana Public Postsecondary Fee-Replaced Debt and Debt Service, report to Commission for Higher Education, Friday, August 9, 2002.

## **Illinois**

The following sources of funding are used for Illinois higher education capital projects:

***State Bond Proceeds:*** Proceeds of General Obligation or Build Illinois revenue bonds fund most higher education instructional, instructional support, and administrative and operational support facilities for public universities and community colleges. General obligation bonds are backed by the full faith and credit of the state, and Build Illinois revenue bonds are supported by part of the state's sales tax.



The institutions use operating budget and building repair (renewal) funds for smaller renewal, deferred maintenance, and fire safety projects, as well as federal funds, gifts and donations, and income from treasurer's temporary investments.

The requirements for institutional, board office, or board approval of capital projects are outlined in the board's policy manual, chapter 9. The following is link to that document:  
<http://www2.state.ia.us/regents/Policies/Chapter%209/Chapter%209.pdf>

Source: Joan Racki, Policy and Operations Officer, Board of Regents, State of Iowa.

### **Louisiana**

Louisiana uses a variety funding sources for capital projects at institutions of higher education. These include appropriations by the legislature to be funded with general obligation bonds. Federal funds may provide for some projects, and the legislature must appropriate those funds for such projects.

Institutions may be authorized by the legislature to sell revenue bonds secured by self-generated revenue, usually additional student fees but occasionally tuition, that provides the debt service. Institutions may use gifts and donations, but such funds may require appropriation by the legislature.

Louisiana also has a mechanism called a reimbursement bond, in which the state sells general obligation bonds to pay for a project that will be amortized from a self-generated institutional source. This method is distinct from a revenue bond.

Louisiana uses two mechanisms that do not follow the annual legislative appropriation process.

In the first, the legislature authorized universities to construct projects of \$5,000,000 or less without legislative approval as long as the campus has its own source of funding and does not incur debt in the process.

The second mechanism is a third-party project. A campus may lease a property to a third party, usually a 501(c)(3) foundation set up for this specific purpose, to select designers and contractors through a competitive process. Once completed, the project is then either operated by the third party which pays the debt service from income generated by the operation of the facility, or the third party leases the facility to the institution, which pays the lease from revenue generated by its operation of the facility. Third-party projects can be built faster because they do not need appropriations, and increasingly projects that produce revenue are constructed in this way. The use of a third-party project is increasing.

Source: Clinton R. Griswold, Jr., Associate Commissioner for Facilities, Louisiana Board of Regents.

### **Michigan**

Michigan's constitution requires voters to authorize any state debt. While the legislature does appropriate general revenue to facility construction, most facilities debt is issued through the State Building Authority (SBA), a quasi-governmental agency or "a blended component unit of the state," established in 1964. Over the last 10 years, the SBA has issued \$2.3 billion in bonds for construction

of institutions of higher education. To receive SBA funding, universities must raise a 25 percent match while community colleges (CCs) must provide a 50 percent match because CCs have a tax base.

After the legislature approves facility construction, SBA issues bonds secured by future rents from that facility. Once the building is constructed, the building is deeded to SBA through a lease and land conveyance agreement. The state leases the facility from SBA and pays rent to SBA. After the debt is retired, SBA deeds the facility to the university.

All universities are authorized to issue bonds, but small state universities have limited access to bond sales.

Source: Scott Hanson, chief analyst, Michigan State Senate Fiscal Agency.

### **Minnesota**

Minnesota's state financing of capital projects is limited to the two public systems in the state: the University of Minnesota (UM) and the Minnesota State Colleges and Universities (MnSCU).

The state funds higher education capital projects with general obligation bonds. For asset preservation projects, the state pays 100 percent of the cost of the project. For other building projects, the higher education system is expected to pay for one-third of the cost of the project from its own sources. State general obligation (GO) bonds pay no more than two-thirds of the cost of the projects.

For UM building projects, the bonding appropriation bill shows the amount that is two-thirds of the project cost, and then a rider states that UM is expected to provide for the remaining project costs from university sources. (Essentially the state does not care where the university gets its one-third share of a project's cost -- it only cares that the state GO bonds are used for no more than two-thirds of the cost of the building project.)

NOTE: UM was created before Minnesota became a state and is constitutionally autonomous from the state. UM does not have its own taxing authority, but it does have authority to issue its own GO bonds (backed by its full faith and credit) as well as revenue bonds.

For the MnSCU system's building projects the two-thirds state/one-third system principal is the same, but it is implemented differently. Unlike the UM, MnSCU does not have its own GO authority. So for MnSCU the state appropriates the full cost of the building projects, and then charges one third of the debt service costs for those projects to MnSCU. MnSCU uses whatever funds it has at its disposal to pay the one-third debt service costs -- sometimes these are increased student fees, sometimes they are tuition dollars, sometimes they are donated funds, and sometimes they are state general fund dollars that were appropriated to MnSCU for general system-wide operations.

UM and MnSCU each have the ability to issue revenue bonds to pay for things like dormitories, parking facilities, and student unions. MnSCU's statutory authorization for revenue bonds is in Minnesota Statutes, Sections 136F.90 to 136F.98, and applies to the seven state universities within the MnSCU system. UM's authority to issue bonds is not in state statute -- it stems from Section 15 of the Charter of the University of Minnesota.

The bills that make state appropriations for capital projects are all session laws. Higher education capital projects are generally grouped in sections 2 and 3 of any given bonding bill. Some of the recent enacted bonding bills are:

Laws of Minnesota 2005, Chapter 20;  
Laws of Minnesota 2003, 1st Special Session, Chapter 20;  
Laws of Minnesota 2002, Chapter 393; and  
Laws of Minnesota 2000, Chapter 492.

MnSCU has statutory authority to issue revenue bonds for construction of student housing, parking, student unions and day care facilities. Since the early 1990s, the legislature has issued GO bonds to support allocations to the higher education systems for deferred maintenance. Capital budget appropriations for Higher Education Asset Preservation and Replacement (HEAPR) totaled:

- \$43 million in the 1998 legislative session;
- \$30 million in the 2000 legislative session; and
- \$60 million in the 2002 legislative session.
- No bonding bill was passed in the 2004 legislative session.

In addition, both higher education systems allocate funds within their operating budgets for facilities maintenance, and repair and betterment. MnSCU inventoried its facilities in 1999 and estimated the cost of its deferred maintenance needs at \$498 million.

UM uses auxiliary revenue bonds for a small percentage of its debt.

Source:

Jayne Sprinthall Rankin, Executive Budget Officer, Minnesota Department of Finance.  
Facilities Division of Minnesota State Colleges and Universities (System). p. 161-162

## **Nebraska**

Nebraska uses many standard sources for funding capital needs of higher education but seems also to have found a unique method.

In 1998, the Nebraska Legislature created the Building Renewal Assessment Funds (Sections 81-188.03 through 81-188.06 of the Nebraska Statutes) for state agencies, universities, and state colleges. The funds collect annual depreciation charges of two percent of the cost of new construction, facility acquisition, replacement, and major renovations projects. The funds will be used to renovate buildings as they age. The legislature made appropriations to the fund prior to budgetary constraints over the last several years. No funds have been expended as yet.

Nebraska's constitution prohibits the legislature from issuing long-term debt. Some institutions have created facilities corporations that issue long-term debt financed by state appropriations, tuition and fees, and/or capital property tax levy funds (by community colleges only).

Nebraska's standard sources include the following:

- direct appropriations of state funds,
- student tuition and fees,

- revenue bonds under Sections 85-401 through 85-411 of the Nebraska Statutes for parking, student housing, student centers, recreation facilities, and student health facilities,
- surplus funds under Section 85-408 of statutes,
- energy savings,
- research grant - facility & administrative funds,
- federal funds,
- auxiliary funds generated by departments (University Press, etc.)
- private donations, and
- capital property tax levy (for community colleges only)

Another interesting funding program is the Task Force for Building Renewal (sections 81-173 through 81-191.01) that addresses requests for fire and life safety, deferred repair, energy conservation, and accessibility projects from a dedicated fund to which the legislature appropriates cigarette taxes under Section 77-2602.

Source: Michael A. Wemhoff, AIA, Facilities Officer, Nebraska Coordinating Commission for Postsecondary Education.

### **New York**

In 1998–99, Governor George Pataki initiated a multi-year plan for capital investments in the two public systems. Under the plan, State University of New York (SUNY) received \$2 billion and City University of New York (CUNY) \$1 billion. A new five-year, \$2.5 billion plan for SUNY and \$1.2 billion for CUNY was approved in the 2004–05 budget. The state finances all capital projects for CUNY senior colleges, other than Medgar Evers, and shares the capital costs for Medgar Evers and community colleges with the city of New York. CUNY issues its own bonds under state-authorized appropriations for academic facilities and infrastructure improvement. A statewide Dormitory Authority issues bonds to cover the state share of revenue-producing facilities.

The state also funds facilities and infrastructure for the SUNY state-operated and community college campuses under arrangements similar to those for CUNY, and provides appropriation authority for self-funded capital improvements for revenue-generating facilities such as residence halls. A separate SUNY legal entity, the Construction Fund is responsible for receiving the investments and proceeds from bonds and for building all facilities. The SUNY chancellor maintains control of the construction fund through having it managed by a vice chancellor. Spending grants or donations from non-state sources for capital improvement requires appropriation authority from the legislature.

Because New York law does not require approval by the electorate for the issuance of bonds, it has not been as difficult as in some states to provide the facilities required for public higher education. For a period of time the SUNY funding formula for operations rewarded the construction of space whether it was required or not. As a result, many institutions overbuilt. During the 1990s, the structure for SUNY capital and debt service was revised to make it more predictable and more accountable. Bonding authority was collapsed so that bonds were issued by agencies like the dormitory authority. Now tuition dollars go to offset appropriations for operating costs rather than being pledged to support ongoing capital projects.

Both the governor and the legislature have agreed that the state should extend support for capital facilities to the independent colleges and universities. A measure to that effect was passed during the

2003–2004 session of the legislature, but ultimately vetoed because of differences between the governor and the legislature about how the funds should be distributed.

SUNY capital and debt service is directly appropriated. CUNY relies on bond debt.

Source:

Richardson, Richard C. Jr., Christine Shakespeare, and Tara Parker. *Public Policy and Higher Education Performance in the State of New York Organizational Performance and Policy Decisions in Canada, the U.S., and Mexico*, Alliance for International Higher Education Policy Studies, December 2004.

### **North Carolina**

Funding Sources for University of North Carolina (UNC) capital projects:

- State Appropriations;
- Bonds/Notes: Voter approval required;
- Certificates of Participation: a public-private partnership that requires no approval by state voters. A unit of government (university) and a private developer partner use tax-exempt bonds issued by the unit of government for the purpose of constructing a facility with a primarily public purpose and retire the debt with revenue generated by the facility, usually student housing or parking facilities;
- Special obligation bonds: self-liquidating debt, payable from obligated resources--rents, charges, fees, overhead reimbursement, and earnings from an institutional endowment--but with no pledge of taxes or the faith and credit of the state or any agency or political subdivision of the state, to pay the cost, in whole or in part, of improvements to the facilities of the university, and subject to no other agency;
- Federal Emergency Management Agency;
- Federal Funds (i.e., Title III and Contract & Grants);
- Federal Facilities and Administrative Receipts (Overhead);
- Gifts/Donations (from individuals, foundations, private organizations, etc.);
- Insurance Claims;
- Housing/Dining Revenues/excess fund balances;
- Other Auxiliary Revenues/excess fund balances;
- Miscellaneous Receipts;
- Dedicated Debt Service Fees; and
- Carry forward funding: two to three percent of unexpended balances that an institution may use for a one-time capital expenditure.

### Capital Facilities Planning and Construction—Background

In 1997, the North Carolina General Assembly directed the *UNC Board of Governors (board)* to study the equity and adequacy of all its capital facilities to prepare a 10-year capital plan identifying facilities and improvements needed in the university and a methodology for funding those needs. The Higher Education Bond Program resulted from the documentation of:

- the condition of university facilities;
- the cost of bringing existing facilities up to current standards; and

- *the cost of building new facilities to meet current and future capacity needs.*

*The needs identified in UNC's ten-year capital plan totaled \$6.9 billion. The study proposed that the general assembly authorize bond financing as a method of funding approximately 60 percent of UNC's needs. The remaining funds would be provided by the campuses, principally from self-liquidating indebtedness, projects that produce revenue sufficient to pay debt service. Phase I, the first six years of the capital plan, addressed the high priority needs, including those necessary to accommodate projected student enrollment growth anticipated in those years. Phase II addressed institutional needs for the last four years of the 10-year period, including remaining modernizations, and those projects that "could wait." Approximately 43 percent of the proposal supported renovations, modernization, and replacement of facilities. Nearly one third of that need was for science laboratories and facilities. In addition, one quarter of the cost went for renovation, modernization, and replacement of residence halls as well as new residence halls for an increase of 17,000 additional beds over the ten-year planning period to meet the demands of enrollment growth. Another 10 percent paid the cost of infrastructure necessary to renovate, modernize, and replace existing facilities.*

On November 7, 2000, North Carolina voters approved the 2000 Higher Education Bond referendum. The \$3.1 billion bond package (with \$2.5 billion for UNC's 16 universities and 11 affiliated institutions and \$600 million for the North Carolina Community Colleges) was the single largest bond referendum for public higher education in the United States.

#### Repair and Renovation (R&R) Funds

*The university's capital plan also contemplated a constant stream of funding from the state's Reserve for Repairs and Renovations (R&R), established in 1993 by the general assembly to provide for current maintenance needs and address the significant backlog of deferred maintenance among state facilities. R&R is appropriated by the general assembly from general revenue each session. Historically, the university has received 46 percent of statewide R&R funds. The general assembly did not fund the R&R for two consecutive years (2001 and 2002) as a result of the state's fiscal crisis. The 2003 general assembly allocated \$15 million in R&R funds but other state building needs reduced the UNC share to \$4.6 million. That year, the general assembly authorized another \$300 million in debt for statewide R&R funds. In 2005, the R&R appropriations totaled \$125 million for all state buildings. The State Construction Office conducts its facilities condition assessment (FCA) of all state facilities every three years to determine the condition of those facilities and provide estimates of the current replacement value of state facilities.*

Since 1993, the board has relied on a formula to distribute funds from the R&R that is based on the FCA assessments, square footage, and program requirements of the campuses.

#### University of North Carolina Sources—Self-Liquidating Projects

*Phase I and Phase II of the 10-year Capital Plan included projects to be funded from self-liquidating sources. The Capital Plan proposed that the state continue its practice of providing approximately 60 percent of the necessary funds for capital expenditures on the campuses, while requiring the campuses to provide approximately 40 percent of funds from resources generated by campus auxiliaries. Over the past five years, the board has requested and the general assembly has authorized over \$1 billion in capital projects from self-liquidating sources. The 2002 and 2003 self-liquidating packets, alone totaling over \$889 million, have resulted in the comprehensive renovation of 20 residence halls, the*

*addition of roughly 4,000 new beds for resident students, the addition of close to 4,000 new parking spaces, in addition to improvements in student services in the form of new or improved student centers, dining facilities, and recreational facilities, and major infrastructure improvements on those campuses with aging facilities and infrastructure.*

Sources:

Terry Feravich, UNC associate vice president for finance and university property officer. 7

Karen Russell, University of North Carolina, UNC accounting.

VIII. Facilities and the Implementation of the Bond Program, *Long-Range Plan 2004-2009*, Board of Governors, the University of North Carolina, pp. 44-46. (quotes in italics).

<http://intranet.northcarolina.edu/docs/aa/planning/reports/longplan/LRP2004-09.pdf> (accessed March 3, 2006).

Article 3 - Special Obligation Bonds for Improvements to the Facilities of the University of North Carolina, North Carolina General Statutes, Chapter 116D: Higher Education Bonds.

<http://www.ncga.state.nc.us/gascripts/Statutes/StatutesTOC.pl?Chapter=0116D> (accessed March 3, 2006).

### **North Dakota**

North Dakota University System capital projects include state general funds (a very small portion) and state bonds. Other projects include private gifts and donations, auxiliary funds, other local funds, fees, and grants.

Source:

Cathy McDonald, director of finance, North Dakota University System

### **Ohio**

Ohio has one state source for facilities funding, general obligation bonds. Over the past five biennia, Ohio's 62 public campuses have received an average of \$516 million annually for construction and renovation. Individual public campuses can use local revenue including dedicated student fees, locally generated bonds, general funds, federal funds, and private gifts. The six community colleges in Ohio have property tax bases from which they receive revenue.

Section 3333.04, Ohio Code, sets out the powers and duties of the Ohio board of regents (regents). These include making recommendations to the governor and legislature regarding the development of state-financed capital plans for higher education and submitting to the state the board's recommendations regarding the state biennial higher education appropriation, including appropriations for individual institutions.

Section 3333.06, Ohio Code, requires the regents to prepare a state plan for participation in federal grants for the construction of higher educational academic facilities;

Section 3333.072, Ohio Code, requires the regents to adopt rules governing the allocation of state capital appropriations to state colleges and institutions. Section 3333-1-21, Ohio Administrative Code, contains these rules. These rules create action and investment funds, which provide loans and grants to higher education institutions for the construction or renovation of research facilities and instrumentation. The action fund is a grant program which provides matching grants to leverage

awards by federal and private agency programs, and the investment fund is a grant and loan program which assists in the major construction and renovation of campus research faculties. This section also sets out the rules and procedures for applications and grants;

Section 3345.07, Ohio Code, authorizes state universities and colleges to issue obligations to cover the costs of housing and dining facilities, pursuant to Section 3345.12. Similarly, Section 3345.11 grants these institutions the same authority for funding the costs of auxiliary or education facilities. Section 3345.12 sets out the procedures and requirements for the issuance of such obligations (it also defines auxiliary and education facilities); and

Section 3377.02, Ohio Code, creates the Ohio higher educational facility commission. Under Section 3377.05, this commission is authorized to issue bonds to pay for project costs ("project" and "project costs" are defined in Section 3377.01). Section 3377.06 further authorizes the commission to also issue bond anticipation notes.

Relevant legal citations include:

Local debt, Private gifts--Sections 3345.07, 3345.11, 3345.12, 3354.08, and 3357.112 of the Ohio Revised Code

Local tax levies (community and technical colleges) Sections 3354.12 and 3357.11 of the Ohio Revised Code

Ohio Higher Educational Facility Commission (Private not-for-profit institutions) Chapter 3377 of the Ohio Revised Code

Source: Rich Petrick, Vice Chancellor for Finance, Ohio Board of Regents.

## **Oregon**

The Oregon University System (OUS) uses seven funds that are project specific. For projects over \$1 million, the legislature provides spending limitation for the following funding types:

***General Fund:*** State revenue appropriated by the legislature.

***Article XI-G Bonds:*** The debt service is paid by state general fund dollars in the OUS Operating Budget. The Oregon Constitution requires a one-to-one match from general funds to get this type of financing. OUS is able to reclassify gifts or lottery bond proceeds as general fund dollars to meet the match requirement.

***Article XI-F Bonds:*** The campus must pay the debt service and identify some type of revenue stream to use this type of funding.

***Other Funds:*** Gifts and grants.

***Lottery Bonds:*** The state lottery funds pay the debt service on these bonds.

***State Energy Loans:*** Offered by the Oregon Department of Energy, repaid by energy savings.

***Article XI-M Bonds:*** For Seismic retrofits of existing buildings, repaid by general funds.

The Article XI-G, F, & M are references to articles in the Oregon Constitution. The remaining funding types are found in the Oregon Revised Statutes.

Oregon has provided about 20 percent of the total OUS capital budget since 1995. The state's last biennial budget was \$410 million.

Source: Robert A. Simonton, Director, Capital Construction, Planning, & Budgeting, Oregon University System

### **Pennsylvania**

Prior to establishment of the Pennsylvania State System of Higher Education (PASSHE), the universities lobbied for capital projects' funding with Pennsylvania Department of Education (PDE) and their state legislators. Minimal funding in the range of \$12 million was received annually. In 1992, the governor initiated a one-time program entitled Jumpstart. The Jumpstart program included a 75:25 shared-funding approach for projects and delegation of the projects to PASSHE for administration of the construction. The universities were tasked with raising their share of the funding.

In 1996, the Academic Facilities Renovation Program (AFRP) was initiated. This program involved a shared-funding approach similar to Jumpstart; however, the matching funds were bond-financed for 20 years from the Universities E&G operating funds. The original bond issue was for \$75 million with funds and debt service distributed using the allocation formula. A second bond issue was approved for \$25 million to be borrowed on an "as needed" basis for AFRP-related projects. This program also identified an annual block of capital funds for PASSHE and the Board of Governors (board) to use in planning which projects to fund. This block funding allowed PASSHE to begin actively planning projects for execution. These funds started at \$30 million annually; in 1997, the amount was increased to \$40 million.

In 2000, the governor increased the annual appropriations by another \$25 million with a requirement to provide matching funds. Projects were approved and funded based on merit during presentations to the Finance, Administration, and Facilities (FAF) Committee of the Board. The board subsequently approved Policy 2000-02, which is currently in use. From FY 2000-01 through FY 2004-05, commonwealth funding for capital construction averaged approximately \$65 million annually. PASSHE continues to work with the governor to increase this funding as appropriate.

Board Policy 2000-02 requires private sector or public/private alliances support of at least 50 percent of the project cost to be raised for all new academic facilities space. Alternative fund sources may also be required on renovation projects. Effort will be made to ensure that alternative fund requirements for each project will take into account any extenuating circumstances. The policy allows exceptions at the discretion of the board, to increase or decrease alternative fund requirements based on the circumstances.

Ultimately, the financing plan approved by FAF will establish the funding requirements for the project. The project financing plan will be used to evaluate the likelihood of generating the necessary funds from multiple sources in a timely manner to meet the design and construction requirements of a capital

project. Such funds must be sufficient to ensure proper completion of the project. Projects without adequate financial resources to meet the funding requirements as per the financing plan will be postponed.

Typical sources of alternative funds include gifts; unrestricted endowment income; corporate sponsorships; camp, conference, and similar net income; federal funds; university operating funds planned for capital improvements, or costs avoided with documented significant improvements in instructional or operational efficiency and effectiveness. With formal University Council of Trustees and board approval, PASSHE bond funds may be used to meet the cash flow requirements of the projects versus receipt of the revenue. Revenue from sources, such as those listed above, should fully cover all bond expenses including fees, debt service, and principal.

Facilities projects are funded by specific Commonwealth appropriations or financed by the State System for maintenance, repair, or renovation of existing facilities or for construction of new facilities. The method of financing determines the procedures used to plan and program a facilities project. See attached Tables INT-1 and INT-2.

Sources:

Introduction, Facilities Manual, Pennsylvania State System of Higher Education, August 12, 2004.

[http://www.passhe.edu/content/?/office/finance/facilities/facilities\\_manual](http://www.passhe.edu/content/?/office/finance/facilities/facilities_manual) (accessed March 3, 2006).

Capital Appropriations Approval Process, Volume IV, Facilities Manual, Pennsylvania State System of Higher Education, January 2005, pp. 1, 4, 5.

### **Washington**

Funds for major repairs, renovation, and new facilities are appropriated in the capital budget, while funds for building maintenance and operations are in the operating budget.

Since 1991, 73 percent of all higher education capital appropriations have come from borrowing through the sale of general obligation bonds. The remaining 27 percent of all capital appropriations are from local, dedicated sources. State law limits the amount of state borrowing from the sale of general obligation bonds. The state constitution limits the amount of this type of debt by requiring debt service payments to be no greater than nine percent of the average of general state revenues for the past three years. State law further limits the debt service ceiling to seven percent of the average of general state revenues for the past three years. Washington does not use an allocation formula or model to distribute capital funds among the sectors or individual institutions of public higher education. Rather, the biennial capital budgets reflect choices or decisions about the relative need and priority of specific projects.

By examining the “aggregate” of these discrete decisions over time, trends in state capital budgeting decisions emerge that reflect changing areas of state capital priorities. Total (all funds) biennial capital appropriations to higher education have fluctuated significantly over time.

Appropriation amounts have ranged from a low of \$415 million in the 1995-97 biennium to a high of \$922 million in the 2005-07 biennium (unadjusted dollars).

State bond appropriations to higher education remained fairly stable until 2003-05 when, in response to a proposal by former Governors Dan Evans and Booth Gardner, the legislature increased the state’s debt limit to provide additional capital funds for higher education facilities over six years. These

funds, totaling \$750 million, are earmarked for projects that will modernize and restore existing facilities, as well as provide additional capacity for future enrollment demand.

Since 1991, the state has invested about \$17.6 billion in all state facilities. Nearly half of this total investment (\$8.3 billion) came from borrowing through the sale of general obligation bonds. Over that same time period, 73 percent (\$3.7 billion) of higher education's capital appropriations (\$5.1 billion) came from these total bond authorizations.

- **Higher education capital appropriations (dollars in millions)**

Historically, capital budgets for higher education have been basically stable, accounting for about 30 percent of the total state capital budget.

Three key trends in higher education's capital funding since 1991 have emerged: growth in total appropriation levels; stable share of biennial bond authorizations; and consistent reliance on bonds as a principal source of financing.

While total higher education appropriation levels have remained fairly stable, capital funding levels among and within the sectors have varied over time – reflecting different capital priorities and initiatives.

- **Capital funding levels have varied by sector (dollars in millions)**

Source:

Legislative Evaluation and Accountability Program Committee and Legislative Budget Notes. "Key facts about higher education in Washington - January 2006," Higher Education Coordinating Board

For further information, email [betsy.heard@senate.state.tx.us](mailto:betsy.heard@senate.state.tx.us) or call me at 512-475-3744.

cc: SRC file

HIGHERED:FIN

**Table Int-2  
State System of Higher Education  
Facilities Projects Approval Authority**

Facility Category Project Type	Approval Authority*				Reference in Manual (by Volume)
	University	Office of the Chancellor	Board of Governors	Legislature	
<b>Educational Facilities</b>					
Preventive Maintenance	✘				III
Routine Maintenance	✘				III
Deferred Maintenance	✘**				III
Component Repairs	✘ (university funded)	✓ (capital project) ✓ (System bond financed)	✓ (capital project) ✘ (System bond financed)	✘ (capital project)	IV, VII-A, VIII-A
Building Renovations	✘ (university funded)	✓ (capital project) ✓ (System bond financed)	✓ (capital project) ✘ (System bond financed)	✘ (capital project)	IV, VII-A, VIII-B
Guaranteed Energy Savings Act (GESA)	✘ (university funded)	✓ (System bond financed)	✘ (System bond financed)		V, VII-B
New Construction		✓ (capital project) ✓ (System bond financed)	✓ (capital project) ✘ (System bond financed)	✘ (capital project)	IV, VII-A, VIII-B
Real Property Acquisition	✘ (leased space)	✓ (procured space and capital project) ✘ (lease as lessor)	✓ (capital project) ✘ (procured space)	✘ (capital project)	VII-C
<b>Special Projects</b>					
Official Residence	✘ (routine maintenance)	✓ (capital project) ✘ (life cycle renovation)	✓ (capital project) ✘ (improvements and new construction)	✘ (capital project)	V, IX-A
Historic Structures	✘ (university funded)	✓ (capital project)	✓ (capital project)	✘ (capital project)	IV, VII-A, IX-B
Statutory Requirements	✘ (university funded)	✓ (capital project) ✓ (System bond financed)	✓ (capital project) ✓ (System bond financed)	✘ (capital project)	IV, VII-A, IX
<b>Auxiliary Facilities</b>					
Preventive Maintenance	✘				III
Routine Maintenance	✘				III
Deferred Maintenance	✘				III
Component Repairs	✘ (university funded)	✓ (System bond financed)	✘ (System bond financed)		III, V, VII-B, VIII-A
Building Renovation	✘ (university funded)	✓ (System bond financed)	✘ (System bond financed)		III, V, VII-B, VIII-A
Guaranteed Energy Savings Act (GESA)	✘ (university funded)	✓ (System bond financed)	✘ (System bond financed)		V, VII-B
New Construction		✓ (System funded)	✘ (System funded)		V, VII-B, VIII-A
Real Property Acquisition	✘ (leased space)	✓ (procured space) ✘ (lease as lessor)	✘ (procured space)		VII-C

\* Does not include procurement authority, which is contingent upon delegated contract authority level.

\*\* If in compliance with statutory requirements.

✘ Final approval.

✓ Approval required before next level.

Table Int-1  
**Pennsylvania State System of Higher Education**  
**Facilities Projects Funding**

Facility Category Project Type	Fund Source										References in Manual (by Volume)
	Operating Budget	Deferred Maint. (Act 1993-50)	System Bond Financing	Capital Appropriation	System Reserve	Gift, Grants, Etc.	Auxiliary Operating Budget	Auxiliary Reserve			
<b>Educational Facilities</b>											
Preventative maintenance	X					X					III
Routine maintenance	X					X					III
Deferred maintenance	X	X				X					III
Component repairs	X	X		X		X					IV, VII-A, VIII-A
Building renovations	◆			X		X					IV, VII-A, VIII-B
Guaranteed Energy Savings Act	X		X			X					V, VII-B
New construction	◆			X		X					IV, VII-A, VIII-B
<b>Special Projects</b>											
Official residence	X	X			X	X					V, IX-A
Historic structures	X	X		X		X					IV, VII-A, IX-B
Statutory requirements	X	X		X		X					IV, VII-A, IX
<b>Auxiliary Facilities</b>											
Preventative maintenance						X			X		III
Routine maintenance						X			X		III
Deferred maintenance			X			X		8			III
Component repairs						X		8			III, V, VII-B, VIII-A
Building renovations			X			X		8			III, V, VII-B, VIII-A
Guaranteed Energy Savings Act			X			X			X		V, VII-B
New construction			X			X			X		V, VII-B, VIII-A

◆ Operating funds may be used to supplement other sources to obtain full scope when the other sources are insufficient to give a complete and useable facility.