



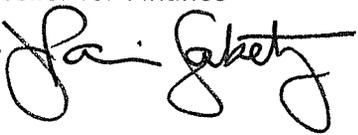
OBM

Ted Strickland
Governor

J. Pari Sabety
Director

MEMORANDUM

TO: Eric Fingerhut, Chancellor
Rich Petrick, Vice Chancellor for Finance

FROM: J. Pari Sabety, Director 

DATE: February 28, 2008

RE: Supplemental Guidance for Higher Education Capital Budget Preparation

The fiscal environment, combined with many competing demands, continues to present budgetary challenges. Given the complexities of the capital budget process, we are not able to finalize the Executive recommendation at this time. Nonetheless, OBM recognizes the need to provide guidance and requests the preparation of a higher education budget request based on a control total of \$415 million for planning purposes.

Please find within this supplemental guidance, which includes additional information regarding the following:

- Control Total for Planning Purposes and Distribution Scenario
- Higher Education Capital Policy
- Continuation of Flexibility Policy for this Capital Budget

We ask that the Board of Regents share this supplemental guidance with each of the colleges and universities as soon as possible. Please feel free to contact me or my staff with any questions you may have regarding this memorandum or the supplemental guidance.

Capital Budget Request

For the FY 2009-2010 capital budget, the Board of Regents and institutions of higher education are asked to prepare capital requests based on a \$415 million control total for planning purposes. Please be aware that the final control number may differ from the \$415 million figure. Compliance with this guidance will ensure sufficient preparation for the capital budget bill once there is a better sense of the state's overall capacity to support various capital projects and determine a final Executive recommendation.

Below is the proposed distribution of the control total for Statewide Projects, Basic Renovations and Institutional Allocations, which total \$415 million. Please know, however, that OBM is willing to discuss the scenario and desires your feedback to ensure the distributions among the Statewide Projects, Basic Renovations and Institutional Allocations are in line with the priorities of the higher education community.

The proposed distribution scenario for the \$415 million control total is as follows, however OBM will consider alternative distributions:

Item	Distribution	Percent
Statewide Projects	\$50,000,000	12.05%
Basic Renovations	\$77,000,000	18.55%
Institutional Allocation	\$288,000,000	69.40%
Control Total*	\$415,000,000	

This scenario is based on historical distribution of capital appropriations and is only presented as an example.

**The Control Total represents the sum of the Statewide Projects, Basic Renovations, Institutional Allocations, and Capital Component. In instances where campuses choose not to request their entire allocation, the remaining allocation may not be redistributed to other campuses' Institutional Allocations, Statewide Projects, or Basic Renovations. Campuses choosing lesser amounts will receive additional appropriations through the Capital Component line item in accordance with current policy.*

Higher Education Capital Policy

Securitization of proceeds from the Tobacco Master Settlement Agreement will ultimately relieve the state from issuing GRF-backed debt to cover outstanding, unused bond authority approved for higher education capital expenses. The higher education capital policy will operate as it has in the past using a debt service allocation equivalent. Additionally, the Capital Component will also continue to operate in accordance with the policy.

The state will calculate Capital Component and SSI deductions, per the higher education capital policy, as if the state were to continue to issue bonds for higher education over a 20-year term and at an interest rate of 4.5%. This represents a continuation of the term and rate applied to appropriations in Am. Sub. H.B. 699.

Flexibility Policy

OBM is supportive of continuing the flexibility policy offered to campuses beginning in the last capital bill. Campuses may request amounts less than their Basic Renovations allocations in favor of an increased Institutional Allocation or, conversely, request a lower amount for their Institutional Allocation in favor of additional Basic Renovations or Instructional & Data Processing Equipment. (OBM recognizes that the Instructional & Data Processing Equipment allocation will be finalized as part of the Statewide Project request).

The total flexibility request must remain within the campus control total. The flexibility option provides a programmatic benefit to campuses, not an additional financial benefit.

How the Flexibility Option Would Operate

1. If a campus chooses to exceed its Institutional Allocation under the flexibility option, the funds must come from one of two places:
 - o Amounts must be taken from Basic Renovations or Instructional and Data Processing Equipment, which is considered free from debt service allocation; or
 - o An amount in excess of the formula allocation is treated as it would be normally and debt service would be paid.

2. If a campus chooses to exceed its allocation for Basic Renovations or Instructional and Data Processing Equipment, the funds must come from one of two places:

- Amounts must be shifted from existing formula allocation of either the Basic Renovation or Instructional & Data Processing Equipment, in which case *no debt service is paid*; or
- The excess amount is shifted from the Capital Allocation and debt service will be paid. That is, it will be treated like Supplemental Renovation.

3. If a campus has requested less than its Institutional Allocation, and the campus' total request for the three formula items does not exceed the formula total, the campus will receive the appropriate level of capital component funding in the next operating budget with the proper adjustments made.

Calculations will be performed by the Office of Budget and Management and the Board of Regents for each individual campus' request to determine whether debt service, capital component, or no payments apply.

Space Shortage

OBM is aware that the Board of Regents calculates a large potential requirement of Space Shortage Allocations. These requirements will demand further discussion. As is standard practice, the Office of Budget and Management expects the amounts designated under the Space Shortage Allocations to remain within the higher education control total and the amounts will not be subject to debt service.

Timeframe for Submission of Budget Requests

Budget requests are due to OBM by the close of business Friday, March 21.