

Council on Postsecondary Education

2024-2026 Asset Preservation Pool Guidelines

Introduction

In 2005, the Council on Postsecondary Education (CPE) and Kentucky colleges and universities contracted with Vanderweil Facilities Advisors, Inc. (VFA), Paulien & Associates, and NCHEMS to conduct a comprehensive review and assessment of the state's public postsecondary facilities. Evaluators took more than a year and examined over 700 Education and General (E&G) facilities located on college and university campuses across the system and concluded in early 2007 that Kentucky's facilities inventory was in relatively poor condition compared to industry standards.

Most buildings at the time were over 30 years old and their condition and utility was consistent with their age. Heating, ventilation, and air conditioning (HVAC) systems, plumbing, and electrical wiring in many buildings had far exceeded their useful life expectancies and many buildings no longer adequately supported the academic programming for which they were originally intended. Overall, evaluators identified a cumulative amount of \$6.1 billion in asset preservation needs for the postsecondary system, projected to come due by 2018 (*Facility Condition Assessment & Space Study*, VFA, 2007).

During the six years following the VFA study, a combination of factors, including a growing inventory of aging facilities, infrastructure, and systems in need of renovation and renewal, increasing construction costs, and minimal state investment in asset preservation resulted in more than a \$1.0 billion increase in asset preservation need. In a 2013 update to the original VFA Study, researchers found that the cumulative cost of bringing the state's postsecondary education facilities up to industry standards was projected to reach to \$7.3 billion by 2021.

Program Funding

Every biennium since 2008, the Council has included a relatively large request for asset preservation funds in its biennial budget recommendation. For more than a decade, ongoing budget constraints limited the state's investment in existing postsecondary facilities. For example, between 2008 and 2022, the state appropriated a total of \$282.0 million for campus renovation and renewal projects. Beginning in 2022, the cycle of persistent underinvestment was broken.

In 2022-2024, the Council requested \$700.0 million in state funds to address the estimated \$7.3 billion need for facilities renovation and renewal on state college and university campuses. The Governor and General Assembly supported this request and provided \$700.0 million in bonds funds to finance individual asset preservation projects at Kentucky public postsecondary institutions during the 2022-2024 biennium. That amount included \$683.5 million for an asset preservation pool and \$16.5 million for a line-itemed renewal project at KCTCS (22 RS, HB 1).

In 2024-2026, the General Assembly made another major investment in renovation and renewal of existing postsecondary education facilities. The enacted *2024-2026 Budget of the*

Commonwealth (24 RS, HB 6) authorized \$563.0 million in General Fund supported bond funds for a Postsecondary Education Asset Preservation Pool to provide funding “for individual asset preservation, renovation, and maintenance projects at Kentucky’s public postsecondary institutions in Education, General, and state-owned and operated residential housing facilities”

(HB 6, p. 199), and “for fixed asset pedestrian and student parking areas, and for the razing of university-owned buildings” (SB 91, p. 17).

Allocation of Funds

In 2022-2024, the General Assembly allocated asset preservation pool funds among institutions based on each institution’s share of system total Category I and Category II square feet. For the upcoming biennium (i.e., 2024-2026), the methodology used to allocate the asset preservation pool differed from the previous approach, in that it provided a fixed base level of funds for each institution, before the remainder was allocated based on square feet. Then legislators made individual adjustments to the amounts that had been allocated to KSU and KCTCS.

Specifically, the General Assembly started with a target total appropriation of \$600.0 million for the asset preservation pool. Each university received a \$15.0 million base allocation (i.e., a total of \$120.0 million for the eight universities), KCTCS received a \$30.0 million base allocation, and the remaining \$450.0 million (i.e., \$600.0 million minus \$150.0 million base total) was allocated among institutions based on share of system total Category I and II square feet. Finally, KSU’s allocation was increased from the calculated total of \$25.7 million to \$60.0 million and KCTCS’s allocation was reduced from \$142.3 million to \$71.0 million.

This method of allocating funds among institutions resulted in a total asset preservation pool appropriation of \$563,042,000 for the 2024-2026 biennium. Each institution’s biennial total was asset preservation funds shown in the table below.

divided by two and apportioned equally each year of the biennium, resulting in the allocation of

Asset Preservation Pool Allocations

Institution	Fiscal Year 2024-25	Fiscal Year 2025-26	Biennial Total
University of Kentucky	\$61,725,000	\$61,725,000	\$123,450,000
University of Louisville	34,553,000	34,553,000	69,106,000
Eastern Kentucky University	25,910,000	25,910,000	51,820,000
Kentucky State University	30,000,000	30,000,000	60,000,000
Morehead State University	18,835,000	18,835,000	37,670,000
Murray State University	23,341,000	23,341,000	46,682,000
Northern Kentucky University	23,076,000	23,076,000	46,152,000
Western Kentucky University	28,581,000	28,581,000	57,162,000
KCTCS	35,500,000	35,500,000	71,000,000
Total Appropriation	\$281,521,000	\$281,521,000	\$563,042,000

Matching Requirements

Included in the 2024-2026 budget bill (24 RS, HB 6) is language, specifying institutional matching requirements for accessing allocated Asset Preservation Pool funds:

- each project for research institutions shall be matched at 25 percent from funds provided by each research institution (p. 199), and
- no match is required for comprehensive institutions or Kentucky Community and Technical College System institutions.

The enacted 2024-2026 state budget (24 RS, HB 6) authorizes the research universities to issue agency bonds to finance asset preservation projects and meet matching requirements, but they can also use cash, private funds, grants, or other institutional funds to achieve the match. The General Assembly provided agency bond authorization of \$15,431,000 at the University of Kentucky and \$8,638,000 at the University of Louisville each year of the upcoming biennium.

The General Assembly operationalized the Asset Preservation Pool matching requirement by requiring research universities to spend twenty-five cents (\$0.25) for every state dollar (\$1.00) used to complete an individual asset preservation project. This ratio, when applied using an expenditure and reimbursement approach for accessing pool funds results in a campus matching fund rate of 20.0% (i.e., $\$0.25/\$1.25 = .20$) at the research universities. Thus, the state reimbursement rate would be 80.0% (i.e., $1 - .20 = .80$), which is the reciprocal of the campus matching rate.

Uses of Funds

Language included in the budget bill (24 RS, HB 6) stipulates that Asset Preservation Pool funds are to be used for “individual asset preservation, renovation, and maintenance projects at Kentucky’s public postsecondary institutions in Education, General, and state-owned and operated residential housing facilities” (p. 199). Senate Bill 91 (24 RS) modified the budget bill language, adding that asset preservation funds could be used for “fixed asset pedestrian and student parking areas, and for the razing of university-owned buildings” (p. 17).

Eligibility Criteria

In order for an asset preservation project and related expenditures to be eligible for reimbursement, the following criteria must be met:

- Projects that preserve, renovate, or renew Education and General facilities **and campus infrastructure that supports such facilities** are eligible to receive funds from the Asset Preservation Pool.
- Projects that preserve, renovate, or renew state-owned and operated residential housing facilities **and campus infrastructure that supports such facilities** are eligible to receive funds from the Asset Preservation Pool. Housing facilities owned and operated by a university, or its affiliated corporations are state-owned.
- Projects that preserve, renovate, or renew pedestrian and student parking areas, or raze university-owned buildings are eligible to receive funds from the Asset Preservation Pool.
- For the purposes of these guidelines, “facilities” includes buildings **and key building systems, such as the plumbing system, electrical system and permanently affixed power**

generators, mechanical and HVAC system, elevator system, escalator system, fire protection and alarm system, gas distribution system, and the security system.

- For the purposes of these guidelines, “campus infrastructure” includes infrastructure, such as roads, walkways, ~~electrical grids~~ high voltage distribution systems, steam tunnels, and water chiller plants, that support current and ongoing use of eligible facilities.
- Projects that preserve, renovate, or renew non-Education and General athletics facilities, hospitals, or auxiliary enterprise facilities are not eligible to receive funds from the pool.
- Only project expenditures made after July 1, 2024 are eligible to be reimbursed from the 2024-2026 asset preservation pool, provided they meet all other guideline requirements.
- Sources of campus matching funds for a project must be cash, agency bonds, private funds, grants, or other institutional funds. General Fund appropriations cannot be used as a match.
- If an individual project contains both asset preservation and expansion of space components, asset preservation funds may be used for the renovation and renewal portion of the project.
- Generally, new construction and expansion projects are not eligible to receive funds from the Asset Preservation Pool. However, under certain limited circumstances, as described below, use of asset preservation funds to finance new construction or expansion may be permissible.
- If it would be more cost effective to raze and replace rather than renovate an existing facility, then asset preservation funds may be used for demolition and reconstruction. For such a project to be considered cost effective, the cost to raze and replace may not exceed 115% of the cost required to renovate a facility. The cost of each option must be certified in writing by an independent third-party industry professional, with the assessment dated not more than six months prior to the initial date the raze and replace request was submitted to CPE staff.
- It is anticipated that requests to raze and replace rather than renovate an existing facility will be infrequent occurrences. For this reason, CPE staff will bring such requests along with certified cost estimates from independent third-party industry professionals to the Finance Committee and full Council for review and approval.
- If an asset preservation project includes a minor expansion component that supports or enhances the accessibility, functionality, or safety and security of a facility, then asset preservation funds may be used to finance the project.
- If an individual project adds a permanently affixed power generator to an eligible building or upgrades or expands the existing high voltage distribution system or steam or chilled water system to create redundancy and ensure the proper functioning of eligible facilities in the event of an outage or natural disaster, then asset preservation funds may be used to finance the project.
- Routine maintenance and repair projects and ongoing building maintenance and operations (M&O) costs, typically funded through an institution’s operating budget, are

not eligible to receive funds from the Asset Preservation Pool.

Project Approval

Generally, a number of boards, agencies, and committees are involved in the postsecondary institution capital project approval process in Kentucky, including campus governing boards, the Council on Postsecondary Education, Capital Projects and Bond Oversight Committee, the Office of State Budget Director (OSBD), and the Kentucky General Assembly. Identified below are actions that each of these entities either have taken or will undertake in the review, approval, and oversight of projects funded from the Asset Preservation Pool.

- Asset preservation, renovation, and maintenance projects that are listed in the *2024-2026 Budget of the Commonwealth* (24 RS, HB 6) are authorized by the General Assembly.
- If an asset preservation project is not specifically listed in the enacted budget, language included in the bill authorizes capital projects, as defined in KRS 45.750(1)(f), funded from the Asset Preservation Pool (24 RS, HB 6, p. 199).
- Capital projects funded from the pool that meet or exceed the \$1.0 million threshold for construction or the \$200,000 threshold for an item of equipment (defined in KRS 45.750) must be reported to the Capital Projects and Bond Oversight Committee.
- All asset preservation, renovation, and maintenance projects that were identified by an institution and included in the Council's 2024-2026 biennial budget submission already have CPE approval.
- Previously unidentified projects above the threshold (i.e., those that were not listed in the Council's budget submission) require Council approval. Given that the General Assembly has authorized capital projects (i.e., those that exceed the threshold) from Asset Preservation Pool funds in HB 6, CPE staff will recommend that the Council delegate authority to staff to approve asset preservation and renovation capital projects.
- Asset preservation projects that fall below the threshold do not require Council approval, however, CPE staff will review all planned projects and certify that they meet eligibility criteria to receive Asset Preservation Pool funds.
- CPE staff will also review campus reimbursement requests and certify to OSBD that they comply with budget bill language (HB 6) and Council approved guidelines.
- Once projects are certified by CPE, OSBD will transfer funds to institutions using the existing reimbursement process for capital projects.
- Regardless of funding source, campus governing board approval is required for all projects funded from the Asset Preservation Pool that meet or exceed an anticipated scope of \$1.0 million for construction and \$200,000 for an item of equipment.

Reimbursement Process

Asset Preservation Pool funds will be distributed to postsecondary institutions primarily using an expenditure and reimbursement approach. Specifically, an institution will be required to

expend its own agency bond funds, cash, private funds, grants, or other institutional funds on eligible asset preservation projects before seeking reimbursement from the state. Under this approach, the state will reimburse 80.0% (i.e., 1.0 - 0.20) of eligible asset preservation project expenditures at the research universities (i.e., or \$0.80 for every \$1.00 spent), up to the total amount of Asset Preservation Pool funds allocated to each institution.

Project Identification

Before seeking reimbursement for asset preservation project expenditures, each institution will submit to the Council a list of projects for which it intends to request funding from the Asset Preservation Pool. CPE staff will work with campus officials to develop a Project Identification Template for submitting project lists, which will include a unique identifier, title, and description for each individual project, building numbers and building names associated with each project, the anticipated scope, state funds, and campus matching funds for each project, sources of matching funds, and anticipated start and completion dates for each project. Listed below is additional information regarding the project identification process.

- Each institution will submit a single list to CPE, identifying planned asset preservation projects, with the total combined scope of the projects not to exceed its respective Asset Preservation Pool allocation.
- Project lists can be adjusted as needed. An additional project or projects can be added at a later time, or a project or projects can be removed from the list.
- The timing for submitting a project list to the Council is at the institution's discretion, however it may be helpful for an institution to know whether projects are eligible early in the process. At a minimum, project identification must precede reimbursement requests.
- Projects do not need to reach a given cost threshold to be eligible for Asset Preservation Pool funding, but all planned projects and related buildings must be identified and submitted to the Council, and the required campus match must be maintained on each individual project.
- For the purposes of these guidelines, an individual project can either be one type of renovation or renewal activity undertaken in a single building or across several buildings, or multiple types of renovation and renewal activities within a single building. Roof replacement, HVAC and mechanical systems, plumbing, and electrical wiring are examples of renovation and renewal activity types.
- ~~To qualify as an individual project, the project must be bid and awarded as a complete project and be overseen and administered by a single prime or general contractor or be completed pursuant to another delivery method as allowed by statute (KRS 45A), such as employing the construction management at risk (CMR) method.~~
- ~~If time and cost savings can be achieved, a project or portion of a project may be overseen by an institution's chief facilities officer.~~
- As indicated in the Project Approval section of these guidelines, projects that meet or exceed the \$1.0 million threshold for construction and the \$200,000 threshold for an item of equipment must be approved by an institution's governing board.
- Before seeking reimbursement, each institution must submit documentation of board

approval to the Council for each project that meets or exceeds the threshold.

- During the project identification phase, CPE staff will review project lists and certify to submitting institutions **and to OSBD staff** that the planned projects **meet guideline requirements and** are eligible for reimbursement from the Asset Preservation Pool.

Expenditure Certification

As institutions incur expenses on eligible asset preservation, renovation, and maintenance projects, they can submit requests for reimbursement to the Council on Postsecondary Education (CPE) and Office of State Budget Director (OSBD), which will include a certification letter with expenditures listed by project. ~~CPE staff will review the requests, verify that the projects and related expenditures meet guideline requirements, and notify OSBD staff that project expenditures are eligible to be reimbursed.~~

Once campus spending has been certified, OSBD staff will transfer funds to a requesting institution's 2024-2026 Capital Projects Pool account and then institutions can request Statewide Accounting to wire them the funds. If an institution is using agency bond funds to finance a project (or projects), it will also need to request those funds in the reimbursement letter. This process is consistent with the existing reimbursement process for capital projects that use agency bond funds. Listed below is additional information regarding the expenditure certification process.

- Requests for reimbursement of asset preservation expenditures will be submitted to both CPE and OSBD staffs.
- Request submissions will include a certification letter with expenditures listed by project.
- In the certification letter, campus officials will indicate that project expenditures are eligible to be reimbursed in accordance with language included in the *2024-2026 Budget of the Commonwealth* (24 RS, HB 6) and the Council's Asset Preservation Pool Guidelines.
- The letter will identify the total amount of project expenditures made during the request period, state funds requested, and campus matching funds.
- Requests can be submitted on an ongoing basis, as asset preservation expenditures are made. The timing of submissions is flexible, although the Council encourages institutions to accumulate expenditures and submit no more than one request per month.
- ~~• CPE staff will review requests and certify to OSBD staff that project expenditures are eligible for reimbursement.~~
- As indicated in the Reimbursement Process section of these guidelines, the state will reimburse 80% of eligible asset preservation project expenditures at the research universities (i.e., the required match is \$0.25 cents for every \$1.00 of state funding, or $\$0.25 \div \$1.25 = 20\%$) and 100% of eligible expenditures at comprehensive universities and KCTCS (i.e., there is no required match for these institutions).
- In terms of timing, distributions from the Asset Preservation Pool cannot begin until July 1, 2024.

The process described above will be different for Kentucky State University ~~and KCTCS~~. Capital

projects at these institutions are administered by the Finance Cabinet. Instead of submitting reimbursement requests to CPE and OSBD, KSU and ~~KCTCS~~ will deposit campus matching funds into project specific eMars accounts and the Finance Cabinet will expend state and campus matching funds for requested projects.

Reporting

The *2024-2026 Budget of the Commonwealth* (24 RS, HB 6, p. 199) requires postsecondary institutions to report capital projects funded from the Asset Preservation Pool that meet or exceed the \$1.0 million threshold for construction and the \$200,000 threshold for an item of equipment (as defined in KRS 45.750) to the Capital Projects and Bond Oversight Committee (CPBOC). Campus officials should report such projects to CPBOC as they become active (i.e., after project bids are received or after projects are approved by campus governing boards) and begin including the projects in their quarterly reports to CPBOC.

Since capital projects at Kentucky State University and ~~KCTCS~~ are administered by the Finance Cabinet, the existing process will remain in place, whereby cabinet staff will report capital projects funded from the Asset Preservation Pool for these institutions to CPBOC upon request of the institution.

CPE staff will provide the Council on Postsecondary Education with periodic updates regarding the status of Asset Preservation Pool distributions and campus matching funds by project and institution. Much of the information for these updates will come from Project Identification Templates and certification letters previously submitted by institutions. Staff will work with campus officials to develop the format of asset preservation reports provided to the Council.