

2022-24 Postsecondary Education Budget Recommendation Capital Investment Request

This agenda item provides detail regarding CPE staff's recommendation to address new construction, asset preservation, and information technology and equipment needs of Kentucky's public postsecondary institutions for the 2022-24 biennium. It identifies the most pressing campus needs for preservation and renovation of existing facilities (to be funded through a combination of state General Fund supported bonds and campus resources) and new and expanded space and information technology and equipment (to be funded with institutional resources).

Historical Information

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

Most buildings at that time were over 30 years old and their condition and utility was consistent with their age. Additionally, HVAC, plumbing, and electrical systems 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 an accumulation of about \$6.1 billion in asset preservation needs for the postsecondary system projected to come due by 2018 (*Facility Condition Assessment & Space Study*, VFA, 2007).

In 2013, VFA was retained by the Council and updated their findings from the 2007 study. Based on their projections, unless sizable investments in asset preservation were made in coming biennia, the magnitude of renovation and renewal need would grow to \$7.3 billion by 2021. Over the past seven biennia, the state has invested \$281 million in postsecondary institution asset preservation projects, or about 3.8 percent of the projected need. 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 since 2007, has resulted in an accumulation of asset preservation need that is estimated to exceed \$7.0 billion.

2022-24 Capital Investment Recommendation

The Council's capital investment request typically includes funding components: (a) new construction; (b) asset preservation; and (c) information technology and equipment. In recent biennia, CPE staff, Council members, and campus officials have elected to

focus the Capital Investment recommendation on asset preservation. That same focus is recommended for the 2022-24 biennium.

Table 1: Components of 2022-24 Capital Investment Request

Funding Component	Fiscal Year 2022-23	Fiscal Year 2023-24
Additional Budget Requests:		
• New Construction	\$0	\$0
• Asset Preservation	\$350,000,000	\$350,000,000
- Debt Service	25,217,000	50,434,000
• Information Technology and Equipment	\$0	\$0

As can be seen in Table 1, staff recommends \$350.0 million each year of the upcoming biennium (or a biennial total of \$700.0 million) for Asset Preservation projects on Kentucky colleges and universities, which could either be bond or cash funded. While investment in new construction and information technology and equipment are important needs for the postsecondary institutions, due to the magnitude of accumulated renovation and renewal needs, CPE staff and campus officials have elected to recommend that the Council’s 2022-24 capital investment request focus exclusively on asset preservation. Each of these funding components is described in greater detail below.

New Construction

For the 2022-24 biennium, a request for state bond funds (or cash) to support new and expanded space is not included in CPE staff’s draft budget recommendation. However, institutions are free to submit to the Governor and General Assembly their own requests for new capital construction projects.

Asset Preservation

As indicated above, the need for facilities renovation and renewal at Kentucky’s public postsecondary institutions has not been addressed in any substantive way since 2008. 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 grow to \$7.3 billion by 2021. Between 2008 and 2018, the postsecondary institutions expended \$815 million on E&G asset preservation projects and the state appropriated \$281.0 million for that purpose.

Staff recommends that the Council continue to pursue a capital investment strategy that establishes a long-term partnership between the state, postsecondary institutions, and students and families to address asset preservation needs. Sustained investment over an extended time horizon is necessary to address what has become an overwhelming

and urgent need for renovation and renewal of existing postsecondary facilities and to protect these valuable state owned assets.

- *Staff recommends an appropriation of \$25,217,000 in 2022-23 and \$50,434,000 in 2023-24, to pay annual debt service on \$700.0 million in state bonds (i.e., \$350.0 million each year) to finance asset preservation and renovation projects at public postsecondary institutions during the upcoming biennium.*

Since the Commonwealth of Kentucky ended fiscal year 2020-21 with a sizable budget surplus, there may be an opportunity for the General Assembly to cash fund some portion of the requested \$700.0 million appropriation for asset preservation. However, the debt service figures shown in Table 1 were calculated using a debt service template provided by Finance Cabinet staff and assuming the full amount would be financed at current tax-exempt rates over a 20 year time horizon.

If the asset preservation request is approved by the Council and authorized by the General Assembly, CPE staff recommends that the funds be allocated among the postsecondary institutions using an approach that has been vetted by campus officials and proposed by Council staff several times in previous biennia. Namely, 10 percent of the total amount appropriated (i.e., or \$70.0 million, if \$700.0 million was authorized) would be designated as the “base allocation” and of that amount 20 percent (i.e., or \$14.0 million) would be allocated to KCTCS and 80 percent (i.e., or \$56.0 million) would be allocated to the university sector. Then, the university allocation would be divided equally among Kentucky’s eight public universities (i.e., or \$7.0 million each).

The remaining funds (i.e., the \$630.0 million not designated as “base allocation” funds) would be allocated among institutions based on each institution’s share of projected total asset preservation need (i.e., \$7.3 billion), as identified in the 2013 update to the VFA Study (see Table 2).

In keeping with previous asset preservation requests approved by the Council, staff recommends that any state bond funds (or cash) appropriated for asset preservation in the 2022-24 biennium be matched 50 cents (i.e., \$0.50) for every state dollar (i.e., \$1.00) with college and university restricted funds resources. The recommended matching component reflects a hard reality that renovation and renewal of existing Education and General facilities has been neglected for far too long on Kentucky college and university campuses, allowing system total asset preservation need to accumulate to more than \$7.0 billion in fiscal 2021-22. It reflects the realization that it will require shared commitment and sustained investment on the part of state government leaders, campus officials, and students and families to address asset preservation needs of the magnitude we now face.

- *Staff recommends that Kentucky colleges and universities expend 50 cents on renovation and renewal projects out of their own restricted funds resources for every state dollar appropriated to finance asset preservation projects at public postsecondary institutions during the upcoming biennium.*

- *Staff further recommends the institutions be allowed flexibility to meet the match by counting renovation and renewal expenditures over three biennia, 2020-22, 2022-24, and 2024-26.*
- *Finally, staff recommends that the institutions be given the option to have zero match on half of the requested asset preservation funds in the first year of the biennium and a dollar for dollar match on the other half of the funds in the second year (to meet the 50 cents on the dollar match in the aggregate over the biennium).*

It is estimated that a combined \$1.05 billion total expenditure for asset preservation, comprised of \$700.0 million in state bond funds (or cash) and \$350.0 million in restricted source campus funds, will address about 15 percent of the total accumulated asset preservation need at the campuses.

Table 2: Allocation of Requested Asset Preservation Funds

Campus	Base Allocation	Renovation and Renewal Need	Percent of Total	VFA Need Allocation	State Funds Requested
UK	\$7,000,000	\$2,689,403,800	36.8%	\$232,099,100	\$239,099,100
UofL	7,000,000	1,237,835,000	17.0%	106,826,900	113,826,900
EKU	7,000,000	526,448,000	7.2%	45,433,200	52,433,200
KSU	7,000,000	136,457,400	1.9%	11,776,500	18,776,500
MoSU	7,000,000	385,674,200	5.3%	33,284,200	40,284,200
MuSU	7,000,000	416,847,300	5.7%	35,974,500	42,974,500
NKU	7,000,000	352,630,000	4.8%	30,432,500	37,432,500
WKU	7,000,000	644,924,200	8.8%	55,657,800	62,657,800
KCTCS	14,000,000	909,780,100	12.5%	78,515,300	92,515,300
Totals	\$70,000,000	\$7,300,000,000	100.0%	\$630,000,000	\$700,000,000

Staff recommends that any appropriations for asset preservation in the upcoming biennium be distributed to the postsecondary institutions in funding pools. Each campus has provided a list of high priority asset preservation and renovation projects that can be funded from their respective pool. A list of eligible projects can be found in Attachment C-1.

If requested debt service for asset preservation projects is authorized, it will be housed temporarily in the Physical Facilities Trust Fund. The list of eligible E&G asset preservation projects can be found in Attachment C-1.

Information Technology

For the upcoming biennium, CPE staff is not recommending a capital investment request to support information technology or equipment projects. Compared to other funding components, information technology was less of a priority among CPE staff, campus presidents and CBOs, than other funding components.

Institution Funded Projects

Staff recommends that the Council approve institutionally funded capital projects that further the goals of *The Postsecondary Education Improvement Act of 1997* (HB 1) and objectives of the Council's *2022-30 Strategic Agenda*. While this proposal requests state funds for asset preservation only, the state budget office has allowed the institutions to submit their projects using the fund source that they used in the capital planning system. The state budget office is fully aware of the CPE position.

Council approval of projects listed in the attachments that are not included in the enacted biennial budget may be pursued in the interim using institutional resources as allowed without additional Council approval. Staff recommends that the Council support projects in the following categories:

- *Authorization of \$2,301,730,800 in agency, federal, private, and other fund source authority to address new and expanded space on postsecondary campuses during the upcoming biennium. This authorization level represents the total of all possible agency, federal, private, and other fund source financed new and expanded space projects that might be undertaken by the campuses during the biennium. These projects can be found in Attachment C-2.*
- *Authorization of \$211,181,000 in agency, federal, private, and other fund source authority for information technology needs on postsecondary campuses during the upcoming biennium. This authorization level represents the total of all possible agency, federal, private, and other fund source financed projects that might be undertaken by the campuses during the biennium. A list of these projects can be found in Attachment C-3.*
- *Authorization of \$278,792,000 in agency bonds to finance capital projects (with a total scope of \$1,473,792,000) on postsecondary campuses during the upcoming biennium (this total does not include Agency Bond authorization for Education and General new construction or asset preservation projects). This authorization level represents the total of all possible agency bond funded projects that might be undertaken by the campuses during the biennium. A list of these projects can be found in Attachment C-4.*
- *Authorization of \$4,524,799,000 in agency, federal, private, and other fund source authority to address life safety, major maintenance, equipment acquisitions, infrastructure repair and upgrades, and new construction on postsecondary campuses during the upcoming biennium. This authorization level represents the total of all possible agency, federal, private, and other fund source financed projects that might be undertaken by the campuses during the biennium for non-Education and General facilities and purposes. These projects, which include capital lease authorizations, can be found in Attachment C-5.*
- *Authorization for nine projects (one at each institution) to improve energy efficiency in campus buildings, including energy equipment acquisitions, infrastructure repair, and upgrades. These projects would be funded using third-party financing available through the Finance and Administration Cabinet, private contractors, or other non-state funds.*

Endorsements

Staff recommends that the Council endorse the following language for inclusion in the 2022-24 Budget of the Commonwealth:

Inasmuch as the identification of specific projects in a variety of areas of postsecondary institution operations cannot be ascertained with absolute certainty at this time, amounts are appropriated and authorized for specific projects which are not individually identified in this act in the following areas: ECU, KCTCS, KSU, MoSU, MuSU, NKU, UK, UofL, and WKU asset preservation, renovations, major maintenance, infrastructure, and HVAC and roofing systems.

Any specific project exceeding \$1,000,000 or any major item of equipment exceeding \$200,000 that is initiated shall be reported by the institution to the Council on Postsecondary Education, the Secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee no later than 30 days after the specific project or equipment item is initiated and funded. The report shall identify the need for, and provide a brief description of, each project or equipment item pursuant to KRS Chapter 45.