

**TOPIC: REVISED CCHE STATE FUNDED CAPITAL CONSTRUCTION  
PRIORITIZATION PROCESS**

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**I. SUMMARY**

The Colorado Commission on Higher Education (CCHE) is charged with prioritizing the institutions of higher education's state-funded capital construction requests for DHE's annual capital budget submission in November. In the past, those projects that were on the Commission's priority list the longest were prioritized highest. Last year, the Commission used a new score-based method for the prioritization of projects, which made the process more objective. CCHE asked for the Capital Asset subcommittee (CAS) and staff to review the new process for the FY 2015-16 budget cycle. This agenda item provides recommendations to the Commission from the Capital Assets subcommittee and department staff for the FY 2015-16 CCHE state funded capital construction prioritization process and criteria.

**II. BACKGROUND**

CCHE's Capital Asset subcommittee and department staff have been working with institutions' finance and capital staff over the past few months to review the Commission's criteria and process for prioritizing institution's state funded capital construction requests. In early March, CAS members and department staff met with institutions to discuss the purpose of the review, and to revisit principles and values for CCHE's capital prioritization process.

Institutions were invited to submit feedback on the pros and cons of the FY 2013-14 prioritization process and criteria, as well as suggested changes for the subcommittee to consider at their late March meeting. At the late March meeting, the subcommittee took feedback from institutions and a majority-based consensus was reached on almost all of the prioritization criteria and processes. Department staff developed a draft score sheet and process memo, which was distributed to institutional staff, Capital Development Committee Legislative Council staff, and the Governor's Office of State Planning and Budgeting capital staff for a final round of feedback.

**III. STAFF ANALYSIS**

This analysis will be divided into two sections: recommended changes to process and changes to criteria definitions and weights.

### Process Changes

The main recommended change to CCHE's prioritization process involves the way in which continuation projects are treated. Currently CCHE reviews and prioritizes all submitted projects (whether they are new, previously submitted, or previously appropriated with Capital Construction Funds) using the same criteria and process.

The exception is the Certificates of Participation (COP) projects, Anschutz and Federal Mineral Lease. A COP is a lease-financing mechanism where the government enters into an agreement to make regular lease payments for the use of an asset over some period, after which the title for the asset transfers to the government. COPs are prioritized at the top of the list annually.

CCHE's Capital Asset subcommittee, after receiving institutional input, has decided that it will now treat continuation projects similar to COP projects and remove continuation as a review criterion, and thus place all continuation projects at the top of the list.

The subcommittee has defined a continuation project as a state-funded capital request that was either:

1. appropriated in a previous year's Long Bill with Capital Construction or General Funds and the institution received funding for that project; or
2. appropriated in a previous year's Long Bill with Capital Construction or General Funds and the institution did not receive funds because the project was de-appropriated due to state budget cuts.

CAS recommends that continuation projects be included in the priority list below COP projects, but before any non-continuation project requests. During the subcommittee's process review meetings, institution staff noted that prioritizing continuation projects against new projects made it difficult to plan capital budgets and financing. They suggested that a way to solve for this uncertainty was to treat continuation projects similar to the way COPs have been treated, automatically prioritize them towards the top of CCHE's funding recommendation list. The subcommittee members and department staff agree this is good policy practice.

Staff recommends continuation projects be prioritized first by length of time since the project's most recent state-funded appropriation (with more years equaling a greater priority) and then by CCHE priority within each year. The only exception to whether a project is considered continuation will be for projects whose program plan changes significantly from year to year. A significant change would include a programmatic change to the project. A significant change would not constitute a change in cost due to more information being available, (e.g., after design, unforeseen complications) or changes in prices due to inflation. See the example below for more information on how continuation projects would be prioritized.

Example Projects:

- Building A was appropriated in the FY 14-15 Long Bill and was number four on CCHE's FY 14-15 priority list
- Building B was appropriated in the FY 07-08 Long Bill and was later de-appropriated by the legislature to balance the budget
- Building C was appropriated in the FY 14-15 Long Bill and was number seven on CCHE's FY 14-15 priority list.
- Building D's design was appropriated in the FY 09-10 Long Bill

Example Prioritization:

1. Building B
2. Building D
3. Building A
4. Building C

Projects that have not yet been funded, whether submitted in a previous request year or not, would be prioritized according to the criteria and process outlined below. These projects would come after COPs and continuation projects on the CCHE's priority list.

Projects that do not fall under the categories of COP or continuation would be considered new projects. The process for prioritization of new projects would include scoring projects with the criteria outlined below, calculating the percentage of total points for each project, and further review by the Capital Assets subcommittee.

Projects would be scored on six criteria:

- Health, Life, Safety and Code Issues (10 points possible, if applicable)
- General Fund Impact and Other Fund Sources (15 point possible)
- Space Needs Analysis (10 points possible, if applicable)
- Clear Identification of Beneficiaries (8 points possible)
- Achieves Goals (5 points possible)
- Governing Board Priority (20 points possible)
- **TOTAL Points Possible: 68 points**

A detailed breakdown of these scoring criteria is included in Attachment A.

“Health, Life Safety and Code Issues” and “Space Needs Analysis” may not apply to every project and when they do not apply, those points will not be included in the denominator. For example, a capital renewal project will not have a space needs analysis component because a

capital renewal project only addresses health, life safety and code issues. Therefore, a capital renewal project would only be worth a total of 58 points. For a new building that is just addressing space needs issues that have resulted from increased enrollment on a campus or program, "Health, Life Safety and Code Issues" would not apply and those ten points would not be included in the denominator for that project.

After a project is reviewed and has been assigned points, staff will calculate the percentage of total points available each project received. Total points (the denominator) will be either 58 or 68. Projects will then be put into a draft prioritization based upon their percentage score.

The draft prioritization will be broken up into three or four tiers, depending on the number of projects submitted. The tiers will include similarly scored projects. The Capital Asset subcommittee members will review the draft prioritization and get input from the institutions on any discrepancies on the scores. Projects may be shifted within tiers from their draft prioritization based upon errors in the scoring or subjective criteria as decided by the subcommittee.

#### Criteria Definition and Weights

This section will include a summary of the recommended changes to the CCHE's prioritization criteria and weights. A detailed breakdown of FY 2014-15 CCHE criteria and scoring, and the recommended FY 2015-16 prioritization criteria and weights are included in the attachments.

#### *Health, Life Safety and Code Issues*

In FY 2014-15, health and life safety issues were scored by a building's Facility Condition Index (FCI) score and the facility's condition related to the Office of the State Architect's controlled maintenance scoring. During one of the subcommittee's meetings, it was mentioned that the FCI scores are not consistent between institutions. Staff was asked to examine broadening the scoring factors used for this criterion. The CAS recommendation is based on best practices from Utah: points would be awarded based on either the equivalent controlled maintenance level or years since the facility was last remodeled.

#### *Cash Funds*

As part of their feedback on FY 2014-15 criteria, institution staff suggested that the "General Fund, Capital Construction Fund, Federal Fund and Cash Fund Impact" and the "Other Fund Sources" criteria be combined into one criteria, "Other Fund Sources". Institutional staff believed that these two criteria were very similar and that keeping them as separate criteria was akin to counting institutional cash contributions twice in the prioritization process. The recommended scoring reflects this suggestion.

For the FY 2014-15 CCHE prioritization, different institution's cash contributions were treated equally in terms of points given for the percentage of cash contribution of the total project cost. In other words, if both Colorado State University and Otero Junior College pledged to contribute 30% of their total projects' costs, they would have received the same amount of "Other Fund

Sources” points for their project. Additionally, cash contributions from student fees did not count towards a project’s cash contribution percentage.

Subcommittee members and institutions were concerned about the fairness of treating all institutions the same for this criterion, because not all institutions have the same capacity and resources for raising and contributing cash funds to capital projects. Using best practices from Utah and Washington State, department staff created a tiered approach to awarding points for cash contributions, which uses differential scoring for community college projects, four-year institution projects, and research institution projects (see page 2 of Attachment A).

A compromise was reached between institutions, subcommittee members, and department staff regarding cash fund contributions deriving from student fees. Institution staff stated that their students vote on any increases to student capital fees and, if their student body wants to raise their fees to fund capital construction, the department should recognize that contribution as equal to all other types of cash contributions (such as cash from donations, institutional reserves, or federal funds). Subcommittee members and department staff were concerned that a policy which treats all cash contributions the same would encourage increases in student fees. As a result, the recommendation is to count cash contributions that are from student fees as 75% of the points as cash contributions from other resources.

#### *Space Needs Analysis*

The Space Needs Analysis criterion takes into account enrollment growth for an institution’s campus as a whole and for individual programs. For the FY 2014-15 request year, Space Needs Analysis was worth eight (8) points. Institutional staff suggested making Space Needs Analysis and Health, Life Safety, and Code Issues worth an equal amount of points. The recommended FY 2015-16 scoring makes both of these criteria worth ten (10) points.

Additionally, the subcommittee received some feedback regarding the use of the “Waiting lists in place due to space needs that affect health care related fields” metric for the maximum amount of points in FY 2014-15. The concept behind this metric was including space needs points for programs and careers that are in demand in Colorado. In order to broaden this criterion so it can apply to all institutions, “affecting health care related fields” was changed to “affecting one of the Top 30 Occupations with the Highest Projected Openings with More than Half of Workers with Postsecondary Experience included in the most recently released *Skills for Jobs* report”. This change allows staff to connect capital requests with market based demand for skills statewide.

#### *Clear Identification of Beneficiaries*

The changes for the Clear Identification of Beneficiaries criterion from FY 2014-15 to FY 2015-16 are to clarify the intent of the measures. The measures for two (2) and four (4) points were revised to clarify that space needs for faculty office space would be worth two (2) points. Projects that affect the space needs of only faculty research would be worth four (4) points.

*Phase-able Projects*

After receiving institutional feedback, the subcommittee agreed to remove phase-able projects as a criterion. Institutional staff suggested that including this criterion as part of the scoring might lead to institutions phasing projects which would be more efficiently requested and completed as a single phase project. Institutional staff suggested that if a project fits into the phasing model, it would be requested as a phased project only if it is the most efficient and logical method.

*Achieves Goals*

There is no recommended change for the Achieves Goals criterion from FY 2014-15 to FY 2015-16.

*Program Plans*

Similar to the Phase-able Projects criterion, institutional feedback on Program Plans lead to the subcommittee removing this criterion from scoring. Institutional staff and the subcommittee believe the other criteria overlap the Program Plan criteria and that it may be a double counting of points. Additionally, some institutions suggested that if a project's program plan is approved by the Commission, the approval should be enough to satisfy this criterion.

*Governing Board Priority*

During the FY 2014-15 prioritization process, the institutions that are part of a system (Colorado Community College System, Colorado State University System, and University of Colorado System) expressed their concerns that systems have more buildings than non-system institutions and therefore, systems should have more projects toward the top of CCHE's state-funded prioritized capital list. In order to address this issue, the subcommittee recommends giving the CU and CSU system's second and third governing board priorities more points than non-system priorities. CU, CSU and CCCS's governing board's second priority would be worth seventeen (17) points to reflect the size (enrollment and geographical) of their primary and secondary campuses. Since CCCS has the most campuses, their governing board's second, third and fourth priority will receive more points than non-system institution priorities. This change is recommended to create more equity among campuses that have more buildings.

**IV. STAFF RECOMMENDATIONS**

**Department staff recommends the Commission adopt the state-funded capital construction prioritization process and score sheets for the FY 2015-16 budget cycle.**

**STATUTORY AUTHORITY**

C.R.S. §23-1-106(7) (a) - The commission annually shall prepare a unified, five-year capital improvements report of projects to be constructed, but not including those projects constructed or acquired pursuant to subsection (9) or (10) of this section, coordinated with education plans. The

commission shall transmit the report to the office of state planning and budgeting, the governor, and the general assembly, consistent with the executive budget timetable, together with a recommended priority of funding of capital construction projects for the system of public higher education. The commission shall annually transmit the recommended priority of funding of capital construction projects to the capital development committee no later than November 1 of each year.

#### **ATTACHMENTS**

Attachment A: CA Subcommittee Recommended FY 2015-16 Criteria and Scoring Method

Attachment B: FY 2014-15 CCHE Criteria and Scoring Method