

DATE: January 26, 2017

SUBJECT: Capital Project Prioritization

ACTION RECOMMENDED: Discussion

Background

A core responsibility of the Commission is prioritizing capital project requests submitted by the governing boards. Along with the outcomes-based funding formula, financial aid and tuition, capital projects form the foundation of higher education finance policy and should be connected to and reinforce statewide policy goals of the THEC Master Plan and the Drive to 55. The current THEC policy approach to capital outlay projects includes principles such as respecting the priority order of the governing board and prioritizing renovation over new construction. However, the policy does not link capital outlay priorities to statewide higher education goals. That fact, along with the necessity of reexamining the capital prioritization process in light of the FOCUS Act, warrants the consideration of changes to the Commission's capital policies.

With the establishment of six new university boards this spring, the prioritization process will involve eight capital outlay projects lists (one each from the new university boards along with one each from UT and TBR) and will be a more complex task. In preparation for the 2018-19 budget cycle, the initial planning for which is already underway at institutions and governing boards, the Commission staff have begun working through ways to revamp the process of prioritizing capital projects. To that end, we have heavily researched how other states approach this task, secured the assistance of a nationally recognized external consultant who has extensive prior work in Tennessee and engaged an advisory group of campus and board officials to discuss potential changes.

The advisory group consists of board and campus officials across finance, academic and facilities management personnel. The variety of backgrounds from this group ensures that a range of viewpoints is offered up for discussion. The goal of this group is to thoroughly discuss and analyze

potential changes to the capital prioritization process that will come before the Commission for consideration. Thus far, the group has met twice, on December 5 and again January 6, to begin discussions of potential revisions to the capital prioritization policy. In order to be utilized for project submissions that will be part of the 2018-19 budget recommendation (to be considered at the November 2017 THEC meeting), a new policy should be considered at the Commission's spring 2017 board meeting. As institutions are now beginning to develop projects, it is helpful to clarify and communicate the goals and broad parameters of the new policy as soon as they become apparent.

Therefore, for information purposes, Commission staff will engage the Commission in a discussion of potential key goals and principles that it would want to include in a new policy. This discussion will provide helpful guidance, ensuring that the discussions and ideas broached thus far are consistent with the intent of the Commission. A fully developed policy proposal will be considered for action at the spring 2017 Commission meeting. This timeframe ensures that boards have a sense of the direction that the new policy is taking as they begin to develop project proposals.

Potential Capital Prioritization Policy Goals

The advisory group and Commission staff have begun the discussion of a number of potential goals that will shape the new policy. For discussion, the goals under consideration so far include:

1. Capital projects should be linked to state goals and the Drive to 55.
 - a. Increasing degree production, particularly at the undergraduate level.
 - b. Enhancing research and workforce development.
 - c. Emphasizing adult learners and other focus populations, as identified in the outcomes-based funding formula.
 - d. Identifying and addressing education and workforce needs of local and regional economies.
2. Capital projects should enhance campus mission and distinction, and should be envisioned or contemplated in the institution's current Master Plan.
3. Institutional facility condition and needs, as analyzed by the THEC Space Planning Guidelines, should be a factor in determining priorities.
4. Boards should develop project proposals that include a programmatic plan, which may include academic planning and early ideas regarding the uses and layout of buildings.

5. External funding should be a factor in project priority, but should not inappropriately determine capital priorities. Currently, a capital match program requires a certain percentage of project costs be borne by the campus, ideally from private fundraising.
6. Both qualitative and quantitative factors should be considered in the Commission's capital priorities.
7. The Commission should be proactive when appropriate to identify types of capital projects that would be consistent with statewide goals.
8. All projects, whether renovations or new construction, regardless of sector or formula/non-formula status, should have a fair chance.

Other factors that are under consideration as a new capital prioritization policy is being developed:

1. The Commission should submit a single, prioritized list of capital projects to the Governor and General Assembly for consideration in the budget.
2. The Commission should reevaluate all project submissions every year.
3. The Commission should respect board priority, except under unique circumstances.
4. Tennessee should maximize efficiencies where possible by giving consideration to renovation projects.
5. Some projects may lend themselves to limiting the total additional new square footage, by including the demolition of obsolete structures.

Summary

The Commission staff will discuss these potential goals and principles for the capital outlay prioritization process. We seek guidance as to the general direction these ideas are headed, as well as other elements not included herein that ought to be considered and debated.