

Policy Number: 7-102	Policy Name: Overview of the Capital Development Process and Phases
Policy Revision Dates: 11/2016, 4/12, 6/2009, 4/2008, 6/05, 4/02, 9/01, 1/99 (Previous 7-102 Introduction and Overview 7/93, 6/92, 9/90, 5/89, 9/88, 1/88)	Page 1

## 7-102 Overview of the Capital Development Process and Phases

### A. Description:

1. The capital development process is divided into six phases: Master Plan, Capital Improvement Plan, Capital Development Plan Approval, Project Approval, Project Construction, and Project Closeout.
2. During the Master Planning Phase, the Business and Finance Committee and the board focus on the relationship between the university's mission statement, strategic plan, and campus physical development plans.
3. During the Capital Improvement Plan (CIP) phase, the Business and Finance Committee and the board focus on the existing condition, utilization and expenditure of capital resources at each of the universities. The CIP includes a report on the university's land and leasing activities building renewal needs, and deferred maintenance activities. In each report, the universities identify proposed capital projects for the coming fiscal year and forecast capital projects that may begin in the subsequent two fiscal years.
4. During the Capital Development Plan Approval phase the Business and Finance Committee and the board focus on the strategic planning perspective for proposed capital projects for the coming fiscal year. The university identifies potential capital projects that contribute to the attainment of the university mission statement and strategic plan, justify the project need, and defines elements of the scope, schedule and budget. Capital Development Plan Approval allows the university to proceed to the Project Approval phase.
5. During the Project Approval phase the university completes the design and prepares construction documents. The Project Approval document serves as notification that the project is ready to advertise for bids, or acceptance of the final guaranteed maximum price, and enter the Project Construction phase.
6. During the Project Construction phase the university awards contracts, and constructs the project in accordance with ABOR Policy 3-804, (Professional Services and Construction Services Procurement).

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7. During the Project Closeout phase the university obtains substantial completion, completes building commission, final inspection, accepts and occupies the facility, and provides final payment to the consultants and contractors. The university performs a review and formal evaluation of the consultants' and contractors' performances.

B. Projects that Require Approval

1. All capital projects with an estimated total project cost of \$5,000,000 or more for renovation or infrastructure projects, or \$10,000,000 or more for new construction or information technology projects shall be brought to the Business and Finance Committee for approval regardless of funding source or financing structure. Non-information technology projects requiring approval shall be submitted for Capital Development Plan Approval.
2. Projects that originally were not required to enter the capital development process, but subsequently are forecasted to exceed the dollar thresholds as described above, must be submitted for Business and Finance Committee approval.
3. Capital projects where the board and the university share with other entities (Federal, State, local, development groups, public/private ventures, etc.) the control, financing, or ownership (current or future) of the project and/or its delivery process and that are subject to review under board policy 7-207, shall be included in the Capital Development Plan and reviewed by the Business and Finance Committee and approved by the board. The university shall seek guidance from the System Office to document the proposed process for board consideration. That process, at a minimum must include the following information, which may be provided in a single report or in a series of reports as details of the project are developed:
  - a. Notice to the Business and Finance Committee of intent to pursue development of an eligible project, including proposed project scope and justification, as well as the process for providing a reasonable opportunity for competition.

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- b. Notice to the Business and Finance Committee on development of negotiating parameters after the other entities have been identified or selected.
- c. Submission for Business and Finance Committee and board consideration:
  - (1) Identification of significant changes since capital development plan approval;
  - (2) Proposed project schedule;
  - (3) Project delivery method and process; as well as project construction, maintenance and operational standards;
  - (4) Fiscal impact and financing plans, and other related information that includes, but is not limited to, funding sources, debt payments, and estimated operation and maintenance costs, including quality control measures that will protect university interests in the areas of project financing;
  - (5) Project budget estimates and process used for developing estimates, including the use of qualified professionals;
  - (6) Outline of other entities involved (if applicable) including the equity position of other entities, anticipated returns to other entities, and/or contributions of other entities;
  - (7) Lease terms, including any ownership transition or purchase options, and
  - (8) Description of other related projects including related infrastructure improvements.
- d. Project updates in the quarterly capital project status report.

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C. Related Projects

1. The universities are responsible for defining the parameters (size, cost and discrete elements) of capital projects with the following provisions:
  - a. The parameters of a project shall not be defined with the objective to bypass or minimize the requirements set forth in board policy.
  - b. The overall plans and costs for related and/or phased projects should be documented for consideration by the Business and Finance Committee.
2. If the board grants Capital Development Plan Approval for a group of related projects, Project Approval is necessary for any phase that exceeds the approval threshold for capital projects. Projects within a project group shall share common attributes, such as location, project type, etc. Projects with no common attributes may not be bundled into one project group.

D. Description of Project Financing:

1. Universities must designate funding sources, including annual debt service if required to construct each project proposed in the Capital Development Plan. Notwithstanding this designation by the universities, the Business and Finance Committee must review, and the board must approve the specific issuance of bonds, lease-purchase agreements, certificates of participation, or any debt instrument regardless of total project cost.
  - a. Universities have authority to issue and maintain a commercial paper program for capital financing provided the use of commercial paper is identified in the project fiscal management plan submitted for board approval, including:
    - (1) Total amount to be issued,
    - (2) Anticipated and maximum interest rates and pricing parameters, and

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(3) Anticipated final maturity date or final renewal periods for the Commercial Paper.

2. Request for debt issuance approval must disclose fully the estimated costs of the project and the debt issuance, information on debt capacity, outstanding debt levels, and debt service payments.
3. Any capital project funded with debt may not increase the university's debt ratio to more than 8% for any year shown in the capital improvement plan.
4. The final maturity of any capital financing undertaken by a university will not exceed the estimated useful life of the capital asset being acquired or constructed.
5. In requesting authority for capital debt, each university shall provide written justification for the debt instrument requested that will include the assumptions made for the source of resources for the repayment of the debt, and the fiscal impact.
6. Request for debt issuance may be combined with the request for project approval.
7. If projects require specific Legislative review:
  - a. The projects may be presented to the Legislature, or its designated committee, for review after receiving Capital Development Plan approval. However, projects shall have legislative review prior to construction.
  - b. Both the request for Legislative review and the request to the board for bond issuance shall display full disclosure of the estimated costs of the project, and if applicable, the bond issuance.
  - c. Use of bond authority for a project in excess of the amount initially approved by the board and review by the Legislature will require board approval prior to seeking review from the Legislature.

E. Total Project Cost Estimating:

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1. The *Regent's Construction Cost Control and Professional Fee Guidelines* (Guidelines) shall be considered in developing cost estimates and calculating building replacement values. In addition, other industry cost guidelines or internal historical data may be used, including inflation factors to ensure the reasonableness of the cost estimates.
2. The Guidelines are published separately and contain fee schedules for architects/engineers, construction managers and contingencies; inflation factors; building and space specifications; and cost matrices for construction of exterior and interior spaces.
3. The Guidelines shall be reviewed and updated by an outside cost estimating consultant. Revisions shall be initiated by the System Office and universities, and approved by the President of the board.

F. Public Art for Major Capital Projects

1. Funds to provide public art may be budgeted for any major building to be constructed or renovated. Major buildings are those with total project costs of \$1,000,000 or greater.
2. Funds will be for the purpose of placing, maintaining, repairing, removing or inventorying works of art (murals, frescoes, sculptures, fountains, mosaics, etc.) in or around university facilities.
3. The funded amount for public art shall not exceed one-half of one percent (0.5%) of the construction cost for any major building.

G. Building Design for persons with Disabilities: All new buildings and structures constructed or renovated at each institution shall comply with the provisions of The Arizonaans with Disabilities Act of 1992, A.R.S. §41-1492 et seq., and any amendment thereof relating to making public buildings accessible and functional for the disabled.

H. Plaques For Buildings: Plaques installed on new buildings at each institution shall carry the names of the Governor and other Members of the board in office at the time the construction contract was awarded, together with the President of the institution, the architect, the contractor, and other participants deemed appropriate.

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- I. Forms referenced in Chapter VII: Under the direction of the President of the board, the System Office and the universities have the responsibility to update and improve the various reports referenced in board policy with the objective of presenting information to the Business and Finance Committee and the board in an effective format and manner.