

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS

For Meeting of January 22, 2014

DISCUSSION ITEM

CAPITAL PROJECT BUDGET AND SCOPE APPROVALS

EXECUTIVE SUMMARY

This item summarizes the current authority thresholds for capital project budget and scope approvals, including augmentations and scope changes.

BACKGROUND

The Bylaws of The Regents document the responsibilities of the Standing Committees, including the Committee on Ground and Buildings' authority to "consider capital improvement requests as defined in Standing Order 100.4(q) and make recommendations in connection therewith to the Board."

Traditional Approval Process

Standing Order 100.4 (q)(1) of The Regents provides certain authorities to the President of the University concerning capital project budget and scope approvals.

(q)(1) Except as provided in paragraph (q)(2) below, the President is authorized to approve amendments to the Capital Improvement Program for projects not to exceed \$10 million. The President is also authorized to approve amendments to the Capital Improvement Program for projects exceeding \$10 million up to and including \$20 million, provided that concurrence is obtained from the Chairman of the Board and the Chairman of the Committee on Grounds and Buildings, and also provided that all actions taken in excess of \$10 million up to and including \$20 million under this authority be reported at the next following meeting of the Board. However, the following shall be approved by the Board: (1) projects with a total cost in excess of \$20 million, (2) for projects in excess of \$20 million, any modification in project cost over standard cost-rise augmentation in excess of 25%, or (3) capital improvement projects of any construction cost when, in the judgment of the President, a project merits review and approval by The Regents because of special circumstances related to budget matters, external financing,

fundraising activities, project design, environmental impacts, community concerns, or substantial program modifications.

The 25-percent threshold cited in Standing Order 100.4(q)(1) was established in 1979 with a dollar cap of \$500,000. Between 1979 and 1996, the dollar cap was increased. In 1996 for projects less than \$10 million, the dollar cap on the 25-percent threshold was removed. In 1999, the Regents approved the current thresholds cited in Standing Order 100.4(q)(1).

Under Standing Order 100.4(q)(1) in the event the total project cost of an augmented project is more than \$20 million, the proposed cumulative augmentations over 25 percent would be approved by the Board.

The Standing Order defines only those augmentations that require Board approval. Under established practice, if the total project cost of an augmented project is between \$10 million and \$20 million AND the cumulative augmentation is over 25 percent, the proposed augmentation would be approved by the President, Chair of the Board, and the Chair of Grounds and Buildings. The President (or the President's delegees) may approve cumulative augmentations that do not exceed 25 percent.

For projects previously approved by the Regents, substantial program modifications (in physical characteristics or intended use), are referred by the President to the Board when, in the judgment of the President, the modifications merit review and approval by the Regents.

ALL ACTIVE MAJOR CAPITAL PROJECTS AT END OF FISCAL YEAR							
<i>Cumulative Changes to Budget Subsequent to Original Project Approval</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
FY	Total # of Active Projects	Original Budget	Budget at End of FY	Inflation-adjusted Budget	Total # with Budget Changes	Changes to Original Budget	% Change from Original Budget
2008-09	291	\$ 8,317,866,489	\$ 9,181,802,489	\$ 9,134,196,489	57	\$ 816,330,000	9.8%
2009-10	229	8,618,701,266	9,418,114,185	9,323,987,185	37	705,285,919	8.2%
2010-11	223	8,557,300,000	8,917,503,000	8,865,642,000	35	288,342,000	3.4%
2011-12	208	7,168,189,000	7,045,090,000	7,010,267,000	42	(157,922,000)	(2.2%)
2012-13	195	6,141,639,770	6,016,910,770		26	(124,729,000)	(2.0%)

- (1) Total # of Active Projects: Projects on which funds were expended but have not been completed as of June 30.
- (2) Original Budget: The sum of the original budgets for the active projects officially approved.
- (3) Budget at End of FY: The sum of the project budgets at year end. This figure includes all increases and decreases made to the original budget since its approval.
- (4) Inflation-adjusted Budget: Budget with inflation removed for state-funded projects.
- (5) Total # with Budget Changes: the number of active projects that have had budget changes (increases or decreases) over the life of the project to date.
- (6) Changes to Original Budget: This is a net dollar amount of augmentations and decreases. State-funded project budgets are adjusted to the original cost index for the project so that inflationary changes are not reflected as budget augmentations.

- (7) % Change from Original Budget: The budget changes represent the percent of change from the original budget, due to revised program scope or market conditions.

The Monitor Report

In 2007, the Regents and the President undertook a major effort to assess the organization and operations of the Office of the President's finance and administrative functions. The University's capital project approval process was identified as an area of focus. A Capital Projects Working Group, established in August 2007, was charged with designing a more efficient capital projects approval process that clarifies roles, accountability, and eliminates unnecessary steps. The Working Group identified the following general issues:

- Several potentially unnecessary steps in the current capital project approval process, as outlined in Standing Order 100.4(q)(1), add unnecessary time with a resulting cost.
- The current practice focused on Regents' project review of all projects rather than strategic review focused on the most significant projects, and of the overall capital program.
 - Regents' time is focused on transactional project-level approval rather than strategic discussion.
 - Tools should be developed that facilitate strategic and plan review by the Regents.

In March 2008, the Regents accepted the report of the Capital Projects Working Group and approved an 18-month "pilot phase" of the process redesign for approving capital improvement projects ("Delegated Process").¹

In September 2008, the Regents approved temporary amendments to the Standing Orders and Regents' Policy to support the "pilot phase." In particular, the President's capital project budget and design approval authority was increased to \$60 million with the Regents' expressed intent that the President's authority would be delegated to the chancellors.²

The "Delegated Process"

Standing Order 100.4 (q)(2) of The Regents provides certain authorities to the President of the University concerning capital project budget approvals under the "pilot phase."

¹ Acceptance of the Report of the Capital Projects Working Group and Approval of Pilot Phase of Process Redesign for Capital Improvement Projects, <http://regents.universityofcalifornia.edu/regmeet/mar08/gb12.pdf>

² Temporary Amendment of Applicable Standing Orders and Regental Policy and Approval of Implementing Guidelines for Pilot Phase of the Redesigned Process for Capital Improvement Projects, <http://regents.universityofcalifornia.edu/regmeet/sept08/gb9.pdf>

As a concurrent action, the Regents Committees on Grounds and Building and Governance are considering items to extend the "pilot phase" to March 31, 2015.

(q)(2) This paragraph shall apply exclusively to capital projects for those campus entities approved by the Committee on Grounds and Buildings for inclusion in the *Pilot Phase of the Delegated Process for Capital Improvement Projects*.

The President is authorized to approve amendments to the Capital Improvement Program for projects not to exceed \$60 million. However, the following shall be approved by the Board: (1) projects with a total cost in excess of \$60 million, (2) for projects in excess of \$60 million, any modification in project cost over standard cost rise augmentation in excess of 25%, or (3) capital improvement projects of any construction cost when, in the judgment of the President, a project merits review and approval by The Regents because of special circumstances related to budget matters, external financing, fundraising activities, project design, environmental impacts, community concerns, or substantial program modifications.

In order for a campus to participate in the “pilot phase,” each campus had its *Ten-Year Capital Financial Plan* and *Physical Design Framework* accepted by the Regents. The inaugural plans were presented and accepted by the Regents during the period of March 2009 – September 2010. The Regents consider the annual update to the Capital Financial Plans during their November meetings.

As intended by the Regents, Presidential Delegation Authority 2574³ delegates the President’s budget approval authority to the chancellors, for both the Traditional Approval process and the “Delegated Process” (for eligible projects⁴). Under the Delegated Process, the President delegated authority to the chancellors to approve a delegated project’s budget augmentation as long as the total project cost, when augmented, does not exceed \$60 million AND the cumulative augmentation does not exceed 25 percent of the original chancellor-approved budget. The President has the authority for augmentations greater than 25 percent for an augmented project that remain under \$60 million, and that authority has not been delegated to the chancellors. In the event the total project cost of an augmented budget is more than \$60 million, the proposed augmentation would require approval by the Board.

The *Annual Report on Major Capital Projects Implementation* is mailed the Regents in October. This report provides an update on the University’s in-progress Capital Improvements Program. The report provides the status of major capital projects (projects over \$750,000), including budget and schedule changes, and projects completed in the last fiscal year, as well as overviews

³ Delegation of Authority - Amendments to the Capital Improvement Program and Transfers of Funds, <http://policy.ucop.edu/files/da/da2574.pdf>

⁴ Eligibility for the Delegated Process requires that the project: conforms to the campus *Physical Design Framework*; complies with the campus *Long Range Development Plan*; is identified in the accepted *Ten-Year Capital Financial Plan*; and complies with all applicable laws, regulations, and University of California policies.

of campus capital programs and project achievements, past and forecast construction market conditions, and University initiatives for improving project planning and delivery.

Under the Delegated Process, substantial program modifications are referred by the President to the Board in the same manner as under the Traditional Approval process.