



Oregon

Kate Brown, Governor

Higher Education Coordinating Commission

Ben Cannon, Executive Director
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www.oregon.gov/HigherEd

April 23, 2018

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court St. NE
H-178 State Capitol
Salem, OR 97301-4048

Dear President Courtney and Speaker Kotek,

A budget note for SB 5702 (2018) directs the Higher Education Coordinating Commission (HECC) to:

... report to the Emergency Board in May 2018 on the statewide criteria developed to evaluate and prioritize Public University capital requests that are proposed in the agency's request budget. The criteria and evaluation process should provide, at a minimum, comparative information across projects, objective analysis of each request, and prioritization of deferred maintenance activities.

We are pleased to have this opportunity to describe the process the HECC uses to review and prioritize university capital recommendations for the Governor and Legislature's consideration. Our Commission and its staff invest considerable time and energy on developing capital recommendations, and we believe our efforts in 2015 and 2017 produced clear roadmaps for how state policymakers can effectively align limited capital resources with the state's overarching goals, strategies, and priorities for higher education. Ultimately, however, the HECC's recommendations are useful only inasmuch as the Governor and Legislature are confident in the criteria and process that we use to develop them. To that end, we welcome your feedback on the information contained in this letter, and will be happy to present this work in person to the Emergency Board and/or its relevant subcommittee, upon your invitation.

HECC's Overall Role in Capital Requests for Public Universities

The HECC makes recommendations on capital investments for public universities in connection with its statutory responsibility for submitting a biennial Agency Request Budget to the Governor. That process is described in ORS 350.075(e)(A) as follows:

Each biennium, after receiving funding requests from the state's community colleges and public universities as authorized by law, [the HECC shall] recommend to the Governor a consolidated higher education agency request budget aligned with the strategic plan described in paragraph (d) of this subsection, including appropriations for:

...

(v) Capital improvements and deferred maintenance;

ORS 352.089(5) further stipulates how the HECC shall establish its capital request for public universities, noting that public universities are first required to submit capital requests to the HECC and that "the commission shall decide whether, and in what manner, to make a request for the issuance of state bonds to the Legislative Assembly."

Upon assuming these statutory responsibilities in 2014, the HECC elected to provide its public university capital recommendations in the form of a prioritized list of projects. With this decision, the Commission maintained the approach taken by the former State Board of Higher Education (then on its way to being abolished), as well as the approach that the HECC takes to making capital requests for community colleges. By providing a ranked list, the HECC's intent is to permit the Governor and Legislature to "draw the line" based on their overall appetite for and ability to bond for capital construction at public universities – with confidence that the state's highest needs and priorities will be met.

HECC's Criteria and Process for Prioritizing Capital Recommendations

The HECC employs a transparent, deliberate, public process to prioritize capital requests for public universities. The Commission's overarching objective is to provide a prioritized list that optimizes the use of limited state resources in order to achieve state goals, consistent with the Commission's strategic plan. The process that the HECC used for its 2015 and 2017 recommendations, and is again employing for 2019, begins with the adoption of criteria for the development of a prioritized list. The Commission's current Capital Policy Statement (included here as Attachment A) enumerates the following criteria:

- All state backed debt prioritized and approved by the HECC will support the Commission's strategic plan as well as class, lab, research or student services needs identified by the public university from which the request was received.
- A plan for supporting the ongoing operational and maintenance needs of current and proposed capital assets, including deferred maintenance and building renewal, must be in place if an institution seeks to expand its capital portfolio.
- General Obligation debt incurred by the state on behalf of institutions for the construction, purchase, or refurbishment of real property will principally serve either to (a) ameliorate constraints within the post-secondary system of higher education by expanding institutional capacity to support student access and completion; (b) extend the useful life of capital assets; or (c) develop or extend key competitive advantages that comport with the state's education, civic, cultural, and economic needs.
- The HECC will encourage projects that generate operational cost savings through the refurbishment or repurposing of existing facilities or the construction of new facilities.
- The HECC, in conjunction with the institutions, will evaluate the efficient utilization and proper maintenance of current capital assets in determining the need for the purchase or construction of additional capital assets.
- Collaboration between multiple educational, civic, state and private institutions will be encouraged.
- Where possible the leveraging of non-state resources will be encouraged in order to maximize mission attainment.
- The HECC will advocate for a level of state-paid capital debt that is adequate to provide institutions with the most cost-effective means of addressing deferred maintenance, life-safety, and code compliance needs that rise to the level of capital expenditures.

To operationalize these criteria and permit an objective analysis of each project request, the HECC adopts and promulgates a Capital Rubric (included here as Attachment B) that describes how Commission staff will assign point values to projects based on their conformity with the Capital Policy Statement. The Rubric assigns special weight to projects that meet the Commission's strategic plan objectives of increasing educational attainment by Oregon resident students, and particularly those who are underrepresented minorities, first generation, low income, and/or rural.

Following the HECC's adoption of a Capital Rubric, universities are invited to submit project requests to HECC staff for evaluation. Universities are required to supply, in writing, information that enables staff to make apples-to-apples comparisons between the projects (see Attachment C). In addition, staff in the HECC's Office of University Coordination conduct site visits to gain further information about the project requests. On the basis of all of the information they collect, HECC staff use the Capital Rubric to evaluate and assign a numerical score to each project.

It is important to note that the HECC's approach to scoring and ranking projects takes place without prejudice to which university submitted the request. While it is not practical for staff to be truly "blind" to which university generated each request, staff evaluate each project on its merits under the Rubric and without reference to from which university it originated. As a result, it is conceivable that a single university's set of projects could dominate the top of the HECC's list or, similarly, that a different university could fail to crack the top 20. Additionally, the HECC's scoring process provides no mechanism for "turn-taking" – i.e. the concept that a project that fails to receive funding in one session is elevated to the top of the list in the next.¹

In view of the fact that the universities typically submit many more projects for HECC consideration than the State is likely to fund, the HECC has invited the university Presidents to establish a "Tier One" list of projects that reflects their highest collective priorities. Historically, HECC staff have focused their evaluation and scoring on projects that appear on the Tier One list.² In the event that the universities are unable to reach timely agreement on a Tier One list, or that they submit a list so lengthy as to be impractical, HECC staff would either need to review and score all submitted projects or establish some other mechanism to quickly screen projects for their relative priority.

By evaluating and applying the Rubric to Tier One projects, HECC staff are able to produce a ranked list of projects that is provided to the Commission for its consideration. In the past, the Commission has firmly endorsed the staff's scoring and ranking, rarely making adjustments to those results.³ The Commission-adopted prioritized list of capital projects is included in the HECC's Agency Request Budget (ARB) to the Governor.

While the Governor is not in any way bound by the HECC's capital recommendations, Governor Brown's 2017 GRB mirrored the HECC's recommendation in most respects. It recommended the first 15 university capital projects that the HECC had endorsed, in the same priority order. It reduced the state share for several of the proposed capital projects, and shifted some Article XI-Q funding to Article XI-G. The GRB's recommendations became the basis for the capital list eventually adopted by the Legislature in mid-2017.

¹ Section E of the Rubric, which allows universities to rank their institutional priorities and receive up to 20 points accordingly, could be interpreted as promoting project distribution between universities and turn-taking, although its effects on overall project scores is modest.

² In June 2016, following the universities' submission of their Tier One list, Governor Brown sent a letter to the HECC reiterating her expectation that public universities "submit all capital requests for which they intend to seek state funding to the HECC for its review and ranking." As a result, the HECC received supplementary submissions from OSU for three additional projects at its Cascades campus and, later in the year, a supplementary submission from UO for the Phil and Penny Knight Center for Accelerating Scientific Impact. HECC staff evaluated and scored those submissions using the same criteria that had been applied to other requests and, in November, the Commission voted to recommend that the Governor include the supplementary projects in her Governor's Recommended Budget (GRB).

³ In November 2016, the Commission made two adjustments to the staff-ranked list, elevating Oregon State University's requests for "Site Reclamation" and "Campus Infrastructure" projects at its Cascades campus from 16th and 17th to 11th and 12th. In doing so, Commissioners highlighted fact that the rubric did not respond well to projects that were necessary to pave the way for buildings but that did not actually result in student-serving facilities themselves directly.

The HECC's Approach to Deferred Maintenance

The criteria included in the HECC's Capital Policy Statement – and operationalized through its Capital Rubric – emphasize the priority that the Commission has placed on reducing deferred maintenance backlogs and creating incentives to reduce future deferred maintenance needs. As described in the Capital Policy Statement, universities must submit to the HECC a plan for supporting the ongoing operational and maintenance needs of current and proposed capital assets, including deferred maintenance and building renewal, if they seek to expand their capital portfolio. Additionally, the Policy Statement notes that the HECC will advocate for a level of state-paid capital debt that is adequate to provide institutions with the most cost-effective means of addressing deferred maintenance, life-safety, and code compliance needs. Partly as a result of the emphasis that the Policy Statement and the Capital Rubric give to deferred maintenance, the HECC's highest-ranked priority for investment in university capital in both 2015 and 2017 was a Capital Improvement and Renewal Fund. This Fund is allocated to all seven public universities for the purpose of addressing major, bond-eligible deferred maintenance and other capital improvement and renewal projects that arise during the biennium. The priority that the HECC has given to the Capital Improvement and Renewal Fund mirrors the universities' emphasis on deferred maintenance funding, which was their consensus highest capital priority for 2015 and 2017.

Going forward, the HECC expects to retain its commitment to prioritizing deferred maintenance. In addition to the significant weight that the 2019 Capital Rubric continues to give to projects that reduce deferred maintenance needs, a Commission subcommittee has begun to consider what mechanisms can ensure that universities are able to fund routine maintenance for all new and newly-renovated buildings.

A 10-year Strategic Capital Plan

While the HECC's current process for making public university capital recommendations is rational, transparent, and ensures alignment between recommended projects and the State's overarching objectives for higher education, it is also a process that is exclusively *reactive* to institutional requests. To date, the Commission has not attempted to *forecast* the future higher education capital needs of the State, overall or by region, by institution, by program, or by project type.

To remedy this, Commission staff is in the process of engaging a contractor to support the HECC in developing a Strategic Capital Development Plan for 2019-2029. In partnership with the universities, this project will result in a high-level summary of the state's university capital needs over the next decade, taking into account demographic, economic, industry, and other environmental factors. It will divide the existing and potential future capital portfolio according to ideal usage and utilization, estimating space need for different academic disciplines, perhaps by degree levels, and space function (education versus research, for example). The Strategic Capital Development Plan is not intended to supplant current capital planning processes by individual public universities, which have the independent authority to manage and maintain real property that is owned by the State. But the HECC's intent is that this Plan will substantially inform the Commission's recommendations on the university capital list starting with the 2021 budget, perhaps replacing significant portions of the current Capital Rubric in the scoring process. Ultimately, it should provide the Governor and Legislature with a clear view of where the State has the appropriate amount and type of capacity to meet its higher education goals, and where it faces significant gaps that will require new investment.

The Case for State Investment in Public University Capital

Thanks to decades of public and private investment, university buildings today represent a significant proportion of the State of Oregon's capital assets (49% of state-owned buildings by square footage, according to a Department of Administrative Services 2017 State Facilities Summary). Whether by providing

classrooms, labs, libraries, performance, or other spaces, these facilities contribute enormously to the State's educational, economic, and civic well-being. By maintaining these assets, replacing them when their lifespan ends, and expanding them as necessary to meet Oregon's growing needs, the State keeps a covenant with the generations of Oregonians who have invested so deeply in their universities.

Since 2009-11, the Legislature has authorized almost \$1.2 billion of General Fund bonds for public university capital, or about 27% of its total GF capital authorizations over the time period. This investment has leveraged an additional \$430 million in philanthropic and other outside resources.⁴ Still, while these investments have had an extraordinary impact on Oregon's public universities, they have not been sufficient to keep up with the demands of replacing/renovating aging buildings, modernizing facilities to meet today's learning needs, and expanding Oregon higher education capacity to reflect the state's goals for post-secondary access and attainment. The HECC looks forward to supporting legislators to determine the highest priorities for ongoing state investment to meet these needs.

I hope that this letter provides a useful summary on the criteria and process that the HECC uses to evaluate and make capital recommendations. Please don't hesitate to follow up with any additional questions. At your request, we will be happy to meet in person with the relevant committees during the interim and/or during the 2019 Legislative Session.

Yours sincerely,



Ben Cannon
Executive Director

cc: Amanda Beitel, Legislative Fiscal Office
Tamara Brickman, Chief Financial Office

Attachment A: HECC Capital Prioritization Policy Statement
Attachment B: 2019-2021 University Capital Project Prioritization Rubric
Attachment C: 2019-2021 University Capital Project Request Guidance

⁴ These figures do not include hundreds of millions of dollars in private and university-bonded funding for university capital projects that received no state General Fund.

Principles to Guide the Prioritization of University Related State General Obligation and State Backed
Debt Financed Projects

The Higher Education Coordinating Commission (Commission) is tasked by ORS 350.075 to evaluate and prioritize capital investments of the state of Oregon in its higher education enterprise for recommendation to the Governor for inclusion in the Governor's Recommended Budget. The Commission recognizes that the most cost-efficient means of meeting the State's ambitious 40-40-20 goal is to maintain and increase the utilization and productivity of the current array of university-related capital assets. As necessary in order to meet the education, civic, cultural and research needs of Oregon and Oregon students, the Commission will recommend that additional state capital resources be deployed to support the renovation of existing facilities and the addition of new facilities.

On a biennial basis the Commission will receive from each institution requesting state-backed capital investments a report including how these investments, along with their current capital portfolio, unite the mission and strategy of the institution to key outcomes measures established by the HECC. To these ends the Commission adopts the following statement of principles.

- All state backed debt prioritized and approved by the Commission will support the
- Commission's strategic plan as well as class, lab, research or student services needs identified by the public university from which the request was received.
- A plan for supporting the ongoing operational and maintenance needs of current and proposed capital assets, including deferred maintenance and building renewal, must be in place if an institution seeks to expand their capital portfolio.
- General Obligation debt incurred by the state on behalf of institutions for the construction, purchase, or refurbishment of real property will principally serve either to (a) ameliorate constraints within the post-secondary system of higher education by expanding institutional capacity to support student access and completion; (b) extend the useful life of capital assets; or (c) develop or extend key competitive advantages that comport with the state's education, civic, cultural, and economic needs.
- The HECC will encourage projects that generate operational cost savings through the refurbishment or repurposing of existing facilities or the construction of new facilities.
- The HECC, in conjunction with the institutions, will evaluate the efficient utilization and proper maintenance of current capital assets in determining the need for the purchase or construction of additional capital assets.
- Collaboration between multiple educational, civic, state and private institutions will be encouraged.
- Where possible the leveraging of non-state resources will be encouraged in order to maximize mission attainment.
- The HECC will advocate for a level of state-paid capital debt that is adequate to provide institutions with the most cost-effective means of addressing deferred maintenance, life safety, and code compliance needs that rise to the level of capital expenditures.

The Commission will explore the development of a mechanism for rationalizing the total investment of state resources, capital and operating through the state's funding allocation model to institutions. Only state-paid capital debt authorized during the 2017 legislative session or after will be incorporated into this mechanism. A workgroup including representatives of the HECC and institutions will be convened

before the 2017 Legislative Session for the purposes of developing this mechanism, exploring its potential consequences and reporting on its feasibility to the Commission.

On a biennial basis, the Commission will produce a scoring rubric designed to incorporate and operationalize the principles enumerated above.



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2019-2021 University Capital Project Prioritization Rubric

A Pass/Fail HECC Strategic Plan & Institutional Master Plan Compliant

The project must relate to the HECC Strategic Plan 2016-2020 (adopted February 2016), as well as the campus's Master Plan and primarily serve class, lab, research or student services needs. Projects that are not compliant with this section will not be scored.

B 1-30 Points HECC Priorities

Points	Priority Category
10	Eases capacity constraint within entire system
10	Supports student completion
5	Supports research & economic development capacity of institution
5	Collaboration between education institutions

C 1-10 Points Cost Savings

Projects are scored based on cost savings generated by eliminating or limiting deferred maintenance projects, and/or operational savings.

D 1-10 Points Life, Safety & Code Compliance

Projects are scored based on the priority of the project to meet life, safety and code compliance needs of mission critical items, including lifecycle cost analysis or projects that support key programs and initiatives.

E 4-20 Points Institution Priority

Each institution will determine the weighted average priority points by projects based on \$20 million dollar priority tranches. Each priority tranche is worth the points indicated in this section.

Tranche	Points
1	20
2	18
3	16
4	14
5	12
6	10
7	8
8	6



F 1-5 Points Clear Identification of Student Focus

Projects are based on the focus or expected impact of the project on student success, with special emphasis on those underserved populations that are similarly emphasized in the Student Success and Completion Model.

G 1-15 Points Leveraging Dollars

Projects are scored based on the following schedule:

% Campus Match	
%	Points
50% or over	10
40%	8
30%	6
20%	5
10%	4
0%	0

Majority pledged or in-hand	
%	Points
100% add	5
75% add	4
50% add	3
25% add	2
0%>=10% add	1
0	0

H 1-10 Points Strategic Priority

Projects are scored based on their ability to bridge gaps and serve identified needs that support the educational, civic, cultural and economic development needs of the state.

Potential Points 100 Points



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2019-21 University Capital Project Request Guidance

Institutions requesting cash or debt financing from the state for capital projects in the 2019-21 biennium, are requested to provide the information described below.

Section I: Institution Capital Information

Note: Only packages that have been fully completed will be considered and reviewed in the evaluation process.

1. Identify whether the institution has a master facilities plan and, if so, the date on which it was adopted and/or last amended.
2. Provide a description of the institution's plan for managing facilities and reducing any deferred maintenance backlog.
3. Provide an estimate of the institution's deferred maintenance backlog for education and general service facilities.
4. Provide an estimate of the institution's seismic upgrade needs for educational and general service facilities.
5. Identify any bond-funded projects that were authorized in prior biennia that will require reauthorization by the 2019-21 legislature. Include the name of the project, when it was authorized, the amount that needs to be reauthorized, and a description of any changes to the project since it was originally authorized (include changes in project cost and funding).
6. Complete the appropriate DAS required bond Forms 107BF15a and/or 107BF15 for each project.

Section IIA: Project-Specific Information

For each project, please provide the following information:

1. A short working title for the project.
2. A narrative description.
3. Identify the expected project start and completion dates.
4. Rubric Section A: HECC Strategic Plan and Institutional Master Plan Compliance
 - a. Identify how the project supports any or all of the following goals in the HECC's strategic plan. Examples of ways projects may support these goals are provided but they are not intended to be exhaustive of potential ways a project may support the HECC's strategic plan goals.
 - i. Pathways: Creating and expanding pathways from high school to higher education to career, which may include:
 1. Promoting degree pathways and related initiatives that increase opportunities for postsecondary students to build on career-oriented education and workplace experience.



2. Creating better connections between higher education and training and employer needs.
 3. Supporting the creation of partnerships between colleges, universities, school districts and other educational partners to create new pathways from high school or community college to higher education opportunities.
 - ii. Student Support: Strengthening the ability of campuses and communities to support student safety, success and completion, which may include:
 1. Creating new spaces or opportunities which help decrease time to degree or increase degree completion rates, especially for traditionally underserved populations.
 2. Increasing safety of students on campus or in university-owned properties.
 3. Increasing access to higher education for traditionally underserved populations.
 - iii. Affordability: Limiting student and family cost for higher education and ensuring that Oregon resident students have access to affordable options for higher education, which may include:
 1. Supporting innovations that lower student and family cost while maintaining quality.
 - iv. Economic and Community Impact: Maximizing the Impact of postsecondary education on Oregonians' economic, civil, cultural and personal well-being, which may include:
 1. Making investments that support higher education's unique role in promoting the cultural and civic vitality of Oregon.
5. Rubric Section B: HECC Priorities
 - a. Provide a description of how this project eases capacity constraint within the entire system, for example:
 - i. Identify if and how the use of integrated technology will ease capacity constraints.
 - ii. Identify if and how new public and private partnerships will ease capacity constraints.
 - iii. Identify other means by which the project will ease an institutional or system capacity constraint.
 - b. Provide a description of how this project specifically supports student completion and the State's 40/40/20 goal.
 - c. Provide a description of how this project supports the research and economic development capacity of the institution. For example:
 - i. Identify how statewide economic development or workforce goals will be achieved.



- ii. Institutional goal advancement (identify the goal or goals being addressed).
 - d. Provide a description of how this project will enhance collaboration between education institutions. For example:
 - i. Identify the institutions and programs where economies of scale may be achieved.
 - ii. Identify which institutions have potential for future collaboration because of the completion of the project.
6. Rubric Section C: Cost
 - a. Identify any cost-savings that may be realized by completion of the project. For example:
 - i. Identify how completion of the project will eliminate or limit deferred maintenance.
 - ii. Identify how completion of the project will reduce operating costs.
 - iii. Identify the sources of funds for future maintenance and repair of the facility.
 - b. Provide an estimate of the total project cost regardless of funding request. Include design and planning, hard and soft construction costs, land and real property acquisition, infrastructure development, furnishings and fixtures, contingencies, etc.
 - c. Identify how much, in dollars, this project will reduce or eliminate a backlog of deferred maintenance at the institution.
7. Rubric Section D: Life, Safety and Code Compliance
 - a. Provide a description of any clear and urgent life, health, and safety problems that will be addressed by the project and an indication of the degree to which the problems are resolved. Include documentation from a qualified third party architect, engineer, fire marshal, attorney, or qualified third party professional if there is a very significant legal, health, and life safety risk.
8. Rubric Section E: Institution Priority

Note: For the purposes of this 2019-21 HECC capital prioritization rubric section, OSU-Cascades is treated as an institution.

 - a. Each institution will determine the weighted average priority points by projects based on \$20 million dollar priority tranches. Each priority tranche is worth the points indicated in this section. Please complete and submit the worksheet provided by HECC.
9. Rubric Section F: Student Focused Investment
 - a. Identify any focus or expected impact of the project on student success, with special emphasis on those underserved populations that are similarly emphasized in the Student Success and Completion Model.
10. Rubric Section G: Leveraging Dollars/Project Financing
 - a. Identify the proposed sources of funding in the Project Request Financing Summary attached. The summary table may be used for multiple projects.



- b. For Article XI-G bonds, identify the amount and source of the constitutionally-required 50% match.
 - c. For any XI-F(1) Bonds (Campus-paid debt) Provide a 10 year pro-forma that documents projected revenue sources, revenue amounts, operations costs, and debt service payments to demonstrate the long term sustainability of the project.
 - i. Provide an estimate of the institution's debt load for the subsequent 10 years based on all projects for which campus funds will be used to pay the debt on state-issued bonds and Certificates of Participation and campus-issued debt. The calculations should include all existing debt, all projects included in the current request, and any planned large future requests.
11. Rubric Section H: Other State Strategic Priority
- a. Identify how the proposal will bridge gaps and serve other identified State needs or goals that support the educational, civic, cultural and economic development needs of the state.

Section IIB: Project-Specific Information

Please complete for each proposed new construction project or project proposal including both the renovation of space and new construction of space.

1. Does the project ease an existing or future institutional or system-wide capacity constraint (Y/N)? If Yes, please be sure to complete Section IIA(5)a.
2. Was renovation of an existing facility or other non-new construction option considered for this project (Y/N)? If Yes, what was the most feasible alternative to new construction?
3. Reflecting on the two questions above, why is new construction a superior option to advance institution or State higher education goals?
4. What is the institution's plan to address future maintenance and repair of this/these proposed facility/facilities?