To maintain the university's fiscal integrity, the university has developed the following capital project financial guidelines. This document will be reviewed and adjusted annually, with adjustments made based on the economic environment and financial position of the university at the time of the review.

Capital Project Financial Guidelines

These guidelines have been developed to reflect the priorities for capital activity – renewal of the university's physical plant, investing in our future, maintaining or improving financial viability, and the best use and management of project funds. The guidelines will apply to all projects requiring project approval requests[1] (PARs) on all Cornell campuses as well as third-party developer projects.

Departure from these guidelines is permissible only in exceptional circumstances and under the process identified in the Exceptions section.

Table of Contents

[1] Including Facilities PARs (FPAR), Systems PARs (SPAR), and Weill Cornell Medicine PARs (WCM PAR)

Capital Planning Principles and Expectations

- Units are expected to plan and budget for space and building renewal needs that reflect the full cost of ownership.
- Proposed capital activity needs to optimize the use of existing space, facilities and infrastructure, or propose demolition and redevelopment, where possible. Units should first meet program needs through reuse and redevelopment without the addition of net new space or infrastructure. Any planned activity to add space will typically be reviewed by the Space Use Advisory Committee before any project approvals will occur.
- Projects or proposed programs are encouraged to prioritize synergies and coordination in the use of resources during their development and implementation.
- As units consider and develop proposals for space, facility, or infrastructure projects, scoping plans should address facilities equipment and systems requiring replacement/renewal (i.e., deferred maintenance). The amount of renewal addressed will be evaluated as each project proceeds through the review and approval process.
- Capital plan submittals must satisfy consideration of strategic renewal as the preferred strategy and must be financially viable to be included in the university's approved multi-year annual capital budget with related expenditures accounted for within the annual operating budget.
- Policy 4.2, Transaction Authority and Payment Approval, defines capital project and lease authorization thresholds. System implementation thresholds are defined in Appendix A.
    - Any transaction authority can elevate to the next higher level and the Capital Funding and Priorities Committee (CF&PC) can request review and approval beyond the requirements of Policy 4.2.

Studies

- All requests for net new space or significant facility renewals that anticipate a project budget equal to or greater than $2 million must be approved by the Provost prior to conducting a feasibility study or initiating any early-stage design process. The Executive Vice President and Chief Financial Officer (EVP/CFO) has similar authority to approve studies for infrastructure or other operational projects expected to be equal to or greater than $2 million.
    - Requests are vetted through appropriate channels during the annual capital budget process. Mid-cycle requests will be brought through the Physical Plant Planning Group (3PG) for review and potential referral to senior executives or other committees.
- Requests for new space must include a program-based rationale and prioritization, explanation and documentation indicating why use of existing space is not feasible. A space study may be required to analyze the potential of existing space to meet anticipated space needs. A business plan that aligns to a unit's strategic priorities and supports the initial capital cost as well as ongoing operating costs will also be required.
- With a preliminary cost estimate, an academic unit may submit a request through the annual capital budget process to spend a limited amount of existing unit funds to the

extent necessary to conceptually develop and size a project idea for the purpose of advancing discussion for possible inclusion in the university's five-year capital plan. Such a study should assess the impact on existing and planned campus infrastructure, and adjacent or other spaces and/or facilities that may be impacted by the project under consideration.

- Studies are required to be reviewed and authorized through Trimble Unity Construct, regardless of cost or method of performance, according to the most current process and workflow documentation. This process improves:
  - Capture of studies for the capitalization process,
  - Alignment of staff effort and funding with mission critical priorities, and
  - Tracking and overall coordination of study efforts across many roles and several units.

  Through this electronic approval process, the Vice Presidents for Facilities & Campus Services and Budget and Planning, as delegated by the Provost, will approve studies and thereby document appropriate vetting and negotiated study conditions.

Lease Activity

Leasing activity has implications for our financial statements, operating budgets and institutional debt capacity, and may require capital funding for associated space fit-out.

- Lease transaction authorities are in accordance with Policy 4.2, Transaction Authority and Payment Approval.
- Per Policy 4.2, any leases with a Net Present Value (NPV) of ≥ $2M require review and approval by CF&PC.
- CF&PC will also review and approve any lease with a combined cost of NPV plus fit-out ≥ $2M.
- Lease activity reviewed by CF&PC must be documented in a Lease Approval Request (LAR).

Financial Viability

Units must demonstrate the availability of funding for the full cost of the proposed project well as the future operations and maintenance of the capital asset.

- The funding plan and phase gating thresholds stated within this document apply to the budget for the entirety of the project. Units cannot meet thresholds by parsing projects unless the subproject can exist indefinitely without future phase execution.
- The project must have a submitted and approved funding strategy that responds to the full cost of ownership, including: 1) the full anticipated capital cost of the project, including project development studies; architectural and design fees; permitting; construction; furniture, fixtures, and equipment; contingencies; enabling costs, etc.; 2) the incremental annual cost of ongoing operations and maintenance, including staffing, for the facility with funding source; 3) an estimated cost and timeline for capital renewal, and 4) any other relevant information requested by the transaction authorities.

    - Allocated units have the responsibility to ensure that any impact to the allocated cost budget and/or model is reviewed and approved by the University Budget Office before the project advances.
- Any projects that add net new space must provide a projected 5-year financial plan showing an operating surplus within that time-period and identified funding for any projected interim operating deficits.
- Planned fundraising, without backstop funding, must be approved by the Vice President for Alumni Affairs and Development or the Vice Provost for Development at Weill Cornell Medicine, as applicable. Recognizing that funding sources are as diverse as university projects, each project's funding strategy should be developed with consideration given to both the project's merit and to university priorities.
- Any proposed capital activity that has funds in-hand must be included (by annual process or by variance) in the university's approved multi-year capital budget before any formal design or construction work begins. However, inclusion in the capital budget does not constitute authorization to proceed with the project as each project phase must be approved through the regular project approval process.

Funding Requirements by Phase

- The full cost of a <u>feasibility or concept study</u> must be in hand and available prior to beginning the feasibility study effort.
- Prior to hiring a consultant for <u>design services</u> beyond feasibility, at least 30% of the total project budget must be committed and the full funding (for the capital project and future operations and maintenance) must be approved by the EVP/CFO and the Vice President for Budget and Planning
    - Funds for design services must be in-hand and available prior to beginning any such work.
- Before a project's <u>construction</u> phase is authorized, all funds within the funding strategy must be committed for the entire project cost and the following additional requirements apply:
    - Gift sources must be 75% in hand with written, binding commitments for the full 100%.
    - Any source of funding for an authorized expenditure which is not in-hand must have an available source of "backstop" funding identified, documented and approved.
    - Use of New York State funds must include an assessment of certainty of funding.
    - Any major utility or other rate-recovery project that represents new capacity or capability must include 1) a detailed statement of expected cash flow, and 2) a rate impact analysis approved by the EVP/CFO and Vice President for Budget and Planning.
    - For projects with total budgets greater than $10M, the Finance Committee of the Board of Trustees must approve the funding plan if the project was not included in the approved multi-year annual capital budget.

Management of Project Funds

Funds in hand will be transferred by Plant Accounting to the project account at the start of each phase of the project. Such transfer will include all unit funding, gift funding, and/or backstop funding if gift funding has not been fully received. The intent of this is to fully fund the value of the approved PAR phase.

Fund Sources

Guidelines for specific fund sources are included in the following sections.

Funds Functioning as Endowment (FFE)

Use of Funds Functioning as Endowment (FFE) in excess of $1M to fund a project must be approved by the EVP/CFO and Provost prior to PAR submittal and per the university's FFE Guidelines. If approved by the EVP/CFO, the cashing-out of FFE funds may be scheduled in a manner that fully covers all project costs on a current month basis but does not unreasonably require cashing out invested funds prematurely.

Philanthropy

- At least 75% of gifts included in the approved funding plan must be cash-in-hand before construction can be authorized to begin.
- Remaining gift pledges are expected to be scheduled to be collected within five years of the start of construction.
- Fundraising must be completed, or an approved "backstop" funding plan must be in place, before construction can be authorized to begin.
- Accounting standards require that gifts received in support of a capital project must be used before other sources of funding.
- A review of gift funding and expenditures will be completed at each year end, and adjustments made as needed. Based on this review, backstop funding may be returned to the unit.

New York State University Construction Fund

Capital projects that are funded by the State University Construction Fund (SUCF) Capital Plan for the benefit of a specific Contract College or Colleges will require a funding contribution from the college(s) to fund those costs not paid by SUCF – typically project management fees, per the Facilities & Campus Services (FCS) division PM Fee Schedule, and miscellaneous project support expenses. SUCF-funded capital projects that are for the benefit of the Contract Colleges as a whole and not a specific unit or units require unit and/or Contract College Facilities funding of costs not eligible for SUCF funding.

The expectation for contribution applies to the specific projects and scope defined in the SUCF Capital Plan, and is not applied to other capital activity, however related, that is pursued by the Contract Colleges.

Debt

The use of liability financing for capital projects, including debt and lease financing, will be prioritized by a university debt committee and decided by CF&PC, following direction and recommendation from the EVP/CFO. The use of debt financing allocated to any capital project will adhere to the guidelines in Appendix B.

Space Fee

Ithaca-based colleges and several units accumulate funds through an annual space fee that may be applied as a fund source to capital projects following the guidelines published in Appendix C.

Bridge Funds

Bridge funds are applied to start multi-year, large, planned maintenance projects without full funding in hand by aligning funding needs with assessments.

- Funding for planned maintenance projects is transferred to project accounts at the beginning of the fiscal year needed as identified in the Sources and Uses spreadsheet in the PAR.
- Capital project accounts will always have a positive balance.
- Facilities and Campus Services tracks future fiscal year planned maintenance commitments.
- No more than $6M of future fiscal year planned maintenance funding will be committed.

Contingency Funds

Pooled Contingency

Planned maintenance projects under $2M participate in a Pooled Planned Maintenance Contingency Fund of $200,000 to cover additional contingency needed in the unlikely event that such contingency is required. The Fund is tracked and funded from the planned maintenance assessment funds. Requests for funds from the Contingency Fund are approved through a Trimble Unity Connect process by delegated authorities.

- Planned maintenance projects under $2M will include 3.5% contingency, used first before funds are requested from the Pooled Contingency Fund.
- Projects will not go into deficit.

Release of Contingency

After project substantial completion and before project closeout, the unit may make one request to release some of the remaining contingency funds. In such cases, the Vice President for Facilities & Campus Services (FCS) or designee will provide a written request to the Division of Financial Services. The request will identify the portion of contingency that FCS deems no longer necessary to cover outstanding costs or liabilities through project closeout. The released funds will be returned proportionally per the Project Closeout guidelines. Such release of funds does not relieve or change any unit funding responsibility should an unforeseen event occur requiring subsequent use of the previously released funds.

Ithaca Energy Code Supplement Renewable Energy Credit (IECS REC) Management Strategy

All projects involving new construction and/or additions >1,000 square feet and/or major renovations > 75% of floor area applying for a City or Town of Ithaca building permit must meet "net zero energy" requirements of the Ithaca Energy Code Supplement. Projects for which rooftop solar is not feasible or not cost-effective can request the "purchase" of renewable energy credits (RECs) from the central university REC pool to comply with these requirements.

Facilities & Campus Services will develop up-front projections for project compliance requirements, with the quantity of RECs determined by the estimated building energy use and cost per REC set at the estimated net replacement cost. Early project estimates for REC costs will be based on average building energy performance, with a "true-up" based on the final project energy model.

FCS is responsible for aggregating the REC funds for strategic energy transition projects to sustain and extend the university REC pool.

Project Closeout

Return of Funds

At closeout, any remaining funds are to be returned expeditiously to units on a pro-rated basis informed by the original funding model. If central funds were used in any part, those funds must be returned first, before the remaining balance is disbursed to the other funding units.

- For Contract College projects with State University Construction Fund (SUCF) funding and unit contributions, following project closeout any savings that are realized will be distributed to the funding partners as follows (unless otherwise documented and approved through the FPAR):
  - Any unused SUCF funding will be returned to the Balance Account.
  - Any unused unit contribution will be returned to the unit. If the contribution was shared, any remainder will be returned on a pro rata basis. Any unused grant funds from other State agencies will be handled in accordance with applicable State regulation or guidance.

Review of Planning and Implementation Processes

- On a regular basis, FCS will present project close-out reports to CF&PC for all projects with total budgets exceeding $10,000,000.
- Close-out reports will include, at least:
  - the status of closing capital project accounts (closure of accounts is expected within 12 months of a facility's beneficial occupancy);
  - budget status;
  - major issues encountered;
  - warranty and other issues requiring resolution.
- Periodically, FCS may be asked to present analysis of project management process and controls for a broader range of project types and budgets to provide a governance level review of the effectiveness of the planning and implementation of capital projects.

Capital Budget, Plan, and Funding Variances

- At project initiation:
  - A capital budget addition exists if the project is not in the approved annual capital budget.
    - Projects not included in the approved annual one-year capital budget may be brought forward for consideration as a capital budget addition between capital budget cycles with approval of a funding plan. The funding plan determination will be made by the appropriate official, based on transaction authorities for capital budget variances as published in Appendix D of Policy 4.2, Transaction Authority and Payment Approval.
  - A capital budget variance exists if the total project budget exceeds the approved, published capital budget. Capital budget variances occur at the time of the first PAR for a project.
- The capital project budget, against which project budget variances will be measured, is established by the first approved PAR.
- A project budget variance exists if the total project budget increases from one PAR approval to the next. Most typically, the project budget is set with the design PAR approval, and a variance may occur at the time of submission of a construction PAR.
  - Capital project budget variances need to be approved by the responsible authority based on capital project transaction authorities as published in Appendix D of Policy 4.2, Transaction Authority and Payment Approval.
- Variances in funding source or expenditures for approved capital activity will also be reviewed by the appropriate university official. (Note: funding variations regarding changes in sources of funding may be approved by the appropriate university official, but the CF&PC Committee itself must approve funding exceptions)

Exceptions

Generally, exceptions to these guidelines are approved by the Responsible Individual with Approval Authority, per Policy 4.2, Transaction Authority and Payment Approval, based on the estimated total cost of the project. Approvals that fall under the jurisdiction of CF&PC are expected to be discussed with leadership to identify concerns and possible mitigations before presentation to that Committee.

Appendix A: Transactional Authorities for Information Technology System Projects

All projects between $100,000-250,000: VP Budget & Planning

For projects in the annual capital budget:

Project Budget	Approver(s)
$250,000-$1,000,000	VP Budget & Planning
$1,000,000-$2,000,0000	VP Budget & Planning and Executive Vice President
> $2,000,000	Capital Funding & Priorities Committee
> $10,000,000	Buildings & Properties, Board of Trustees

For projects not in the annual capital budget:

Project Budget	Approver(s)
$250,000-$500,000	VP Budget & Planning
$500,000-$1,000,0000	VP Budget & Planning and Executive Vice President
> $1,000,000	Capital Funding & Priorities Committee
> $10,000,000	Buildings & Properties, Board of Trustees

Capital and project budget variances:

Variance	Approver(s)
$250,000-$1,000,0000	VP Budget & Planning and Executive Vice President
> $1,000,000	Capital Funding & Priorities Committee

Appendix B: Guidelines on the Use of Debt for Facilities Capital Projects

Debt may be used as part of the funding plan for facilities capital projects according to these guidelines. The determination of whether debt is appropriate or available to use for any project is subject to considerations that include University policy, the University's bond rating, the nature of the facility and proposed project work, the budget viability for debt service, etc.

The University employs various debt instruments as part of its overall financial operations, as directed by the University EVP & CFO. In most instances, the use of debt by a Cornell unit for facilities renewal is accomplished by borrowing funds via the University Treasurer. The borrowing unit is responsible for paying back both principal and interest at the rate set by the Treasurer's Office over an agreed-upon term of the loan. The internal loan rate is reviewed annually.

General principles for use of debt financing:

- The project must be a University capital priority and/or otherwise represent significant renewal for the academic mission and/or student experience.
- The facility, including infrastructure, must be Cornell-owned.
- No more than 50% of any capital project should be debt-financed unless the project is for life-safety, a major infrastructure priority, or in support of auxiliary enterprises such as residence halls that generate revenues.
- The amount of debt will be evaluated based on both project-specific and overall debt capacity.
- Debt should be last funding in to support project, if multi-sourced.
- Debt restrictions will not apply to third-party developer projects, but the proposed capital structure of such projects must be reasonable and prudent given the characteristics of the project and will be a factor in their approval.

Process for requesting debt

Units requesting debt as part of their capital funding plan should include it as part of their capital planning process for which will ultimately be directed to the University Treasurer for review by the university debt committee and ultimately EVP/CFO and Provost for inclusion in the approved annual capital budget. The Office of the Treasurer publishes guidelines for internal loans here.

Appendix C: Space Fee Request

The Space Fee is an annual assessment that is levied on all University colleges and units with space on the Main Campus. The assessment basis is the proportional assignment of space following the Common Space Factor (CSF) model as applied in the Facilities and Campus Services (FCS) Stewardship Maintenance Model. Space designated as General Service is excluded from this model.

The Total University Assessment is set by the Provost. During the annual budget process, the dollar amount of each college and unit assessment is distributed via a spreadsheet, along with the related inventory data and the CSF calculations.

The Space Fee can be applied to a capital project per the following criteria:

- Project should advance one or more of the following:
  - Significant renewal for academic mission and/or student experience
  - University capital priority
  - Compliance or life safety that cannot be covered by central funds
- Space fee funding should cover no more than 90% of the total project cost (10% contribution by unit at minimum)
- Unit pulls funds no more than once every 5 years
- Requests are reviewed and approved by Provost supported with documentation from VP of Budget and Planning and VP of Facilities and Campus Services