

LAFAYETTE COLLEGE

Capital Project Approval and Funding Policy

1. INTRODUCTION and PURPOSE

The College has developed a capital project approval and funding policy to maintain the College's fiscal integrity and enhance internal controls. The approved projects will meet key feasibility criteria and be aligned with strategic priorities to ensure high-quality, cost-effective projects that enhance the College's campus and values. The policy also addresses requirements for donor funded projects in order to reduce or eliminate future financial risk to the College.

2. DEFINITIONS

A capital project is defined as any activity to acquire, develop, improve, or maintain a capital asset. A capital asset is a tangible asset with a useful life longer than a year and is not intended for sale in the regular course of operations. Capital assets are generally buildings and building components, laboratories, machinery, or equipment. Capital projects include those funded by operating and capital budget monies, bond funds, capital leases, third party developer projects and restricted gifts.

The threshold for inclusion in the College's annual capital budget is a minimum project cost of at least \$5,000 for single item equipment related purchases and \$25,000 for repairs, renovations and the like, in addition to the principles and criteria delineated below.

3. CAPITAL PROJECT REQUEST PROCESS

- 3.1. Faculty and staff requests satisfying the criteria for capital projects are annually submitted through the capital project request page in Anaplan by the Budget contact within a division. Project requesters are asked to define the project scope, its potential benefits, and estimated total project cost along with the possible funding sources such as operational, donor, debt, department or grant. The total project cost should be inclusive of confirmation from facilities and include factors such as construction, technology, equipment, furniture, software and a project contingency. In addition, life-cycle estimates for the project and annual anticipated operating and maintenance expenses, if applicable, should be included as well. If funding sources are known or identified at the time of the request, this information should also be provided.
 - 3.1.1. At project ideation, feasibility studies that cost up to \$100k require EVP approval to fund and proceed. Studies over \$100k require both EVP and President approval to fund and proceed.
 - 3.1.2. The Financial Policy Committee (FPC) and Grounds and Building (G&B) Committees will be informed of feasibility studies and their status in accordance with Section 1.1.1.1 in the Policy.
- 3.2. Department heads and their Vice Presidents determine the priority of the capital projects. The capital budget team reviews the prioritized requests against available funding sources. The Senior Leadership team reviews the prioritized list with funding sources and finalizes a recommendation for review by the College Budget Planning Committee.

- 3.3. The recommended project list is then presented as part of the Capital Budget and shared with the Financial Policy Committee (FPC), Grounds and Building (G&B) and the Board of Trustees (BOT) for general support of the projects and their initiatives. The overall approval of projects will occur as part of the annual budget resolution for approval.
- 3.4. Large capital projects in excess of \$1 million requested during the Capital Budget cycle are also submitted to the Senior Leadership team at the idea stage prior to proceeding with any design efforts to determine whether the project has the full support of the Administration. For any project costing \$5 million or more, BOT approval is required for the development of a schematic design estimate. Formal approval by G&B is received after the presentation of the Guaranteed Maximum Price. The project is then recommended to FPC and the full board for approval before proceeding with construction.
- 3.5. Approved budgets and projects as well as deferred projects are communicated to the Campus Community after the BOT meeting. Timing of projects will be coordinated between the Division and Facilities or Project Manager.
- 3.6. Project Managers or Facilities will provide the project status and updates to the Capital budget team as required to understand any issues or concerns as the projects progress.

4. CAPITAL PROJECT BACKGROUND

- 4.1. Requests for new space must include a program-based rationale and prioritization, explanation and documentation indicating why the use of existing space is not feasible. A space study may be required to investigate the campus wide existing space inventory to help determine if anticipated space needs can be satisfied. An economic pro forma that identifies annual costs, financing costs and annual revenues if any, is required.
- 4.2. Capital Project requests, including new or existing building renovations, equipment, and campus infrastructure will typically be discussed and approved during the annual Budget Cycle. Approved projects will be completed the following summer unless they can be completed during the upcoming academic year without disruption.
- 4.3. Projects that are discussed outside of the Budget Cycle and anticipate a project budget equal to or greater than \$5 million must be approved by the following:
 - G&B to ensure such projects are consistent with the College's Campus Master Plan.
 - FPC to authorize financing options after Schematic Design

Please refer to Section 7 for Approval Process.

5. CAPITAL PROJECT APPROVAL CRITERIA

The following guidelines reflect four key criteria for capital approval: (1) strategic renewal or expansion of the physical plant, (2) financial viability, (3) agreement with the Campus Master plan and (4) the best use and management of project funds. Projects are reviewed to determine whether they are consistent with the college's strategic priorities and funding availability. Consideration of these criteria is required for all projects to be included in the college's approved annual capital plan.

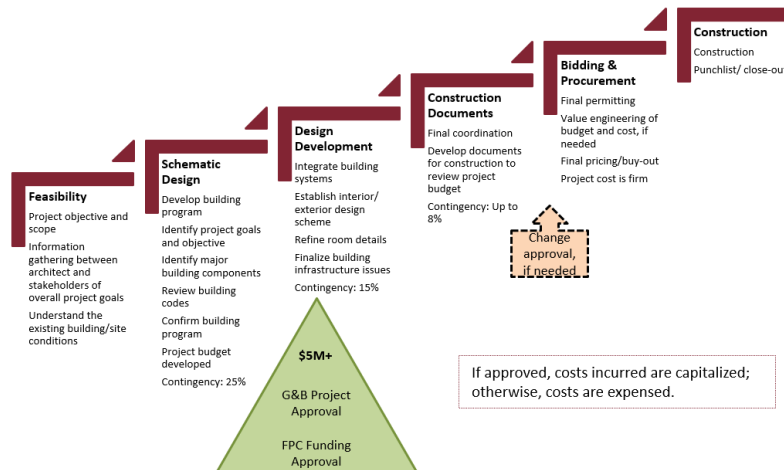
- 5.1. Before requesting additional new space or infrastructure, the College's existing space should be explored and evaluated first. Proposed capital projects or programs should optimize the use of

existing space, facilities, and infrastructure, or propose demolition and redevelopment, if necessary, before seeking to add additional space.

- 5.2. Projects or proposed programs must endeavor to maximize utilization of existing resources during their development and implementation.
- 5.3. Proposed space, facility or infrastructure projects to be included in the annual capital plan must address a significant amount of deferred maintenance when enhancing an existing space or creating a new space. In addition, future annual operating cost need to be considered when a project is being designed.

6. CONSTRUCTION PROJECT LIFE CYCLE

The availability of funding for the total cost of the proposed project as well as future operations and maintenance must be demonstrated as part of the project approval process. The project development should follow the life cycle depicted below:



- 6.1. For a project to be submitted for approval, the project must have a submitted and approved funding strategy and include: (1) the full anticipated cost of the project including project development studies, architectural and design fees, construction, equipment, contingencies, and enabling costs; and (2) the incremental annual cost of ongoing operations and maintenance. Additional information such as an estimated cost and timeline for capital renewal is preferred.
- 6.2. If the feasibility study suggests that the project should move forward and has been approved as per the parameters of this policy, the study will become a part of the overall project. If the study suggests that the project is not viable then those study and design costs should be expensed.
- 6.3. With a preliminary cost estimate, a division may request permission from the Senior Leadership team to spend a limited amount of its own existing funds to the extent necessary to conceptually develop and size a project idea for the purpose of advancing discussion for

possible inclusion in the college’s capital budget or campus master plan. This study should assess the impact on existing and planned campus infrastructure, and adjacent or other spaces/facilities on campus that may be impacted by the project under consideration.

6.4. During the calculation of a total project cost, the project contingency will be modified according to the following:

6.4.1. Up to 25% contingency will be held through Schematic Design

6.4.2. Up to 15% contingency will be held through Design Development

6.4.3. Up to 8% contingency will be held through Construction Documents

6.4.3.1. If bids are based on 50% construction documents, then a project contingency of 8% shall be included

6.4.3.2. If bids are based on Guaranteed Maximum Pricing, then a project contingency of 8% or less shall be included

7. APPROVAL AUTHORIZATION for CAPITAL PROJECTS and FUNDING

7.1. A project will need various levels of approval depending on the estimated project budget and stage of the project:

Proposed Project Budget	Finance	EVP	President	G&B and FPC Committees	Board
Feasibility					
<\$0.1 million		X		(Inform)	
>\$0.1 million			X	(Inform)	
Schematic Design through Construction					
<\$1 million	X				
\$1-3 million		X			
\$3-5 million			X	(Inform)	
>\$5 million				X	X

7.2. A **project resolution** approved by G&B and the Board and a **funding resolution** approved by FPC and the Board is needed for a capital project with the following criteria:

7.2.1. Any project that is \$5 million or more

7.2.2. For all projects included within the annual Capital Budget (as one resolution)

7.3. If a project is solely donor funded, the resolution to FPC will include verbiage to bring awareness of the possible financial risk to the College should pledges not be collected. FPC will also need to review the fundraising strategy provided by Development as per Section 8.

7.4. Scope and project changes that drive costs beyond the approved cost may require additional approval to continue.

7.4.1. Cost increases or scope changes identified between issuance of Construction Documents (CDs) and Bidding & Procurement

7.4.2. Change in Architect, Engineer, or other change leading to financial impact

7.5. For projects below \$1 million that occur off cycle of the annual Capital Budget, the Construction Project Life Cycle will need to be followed and approval received from the VP or EVP is required to proceed.

7.6. If the increase cannot be absorbed in the established contingency, the Administration should seek to inform or request approval to continue.

7.6.1. Any change or request that requires approval outside the scheduled timeframe, please notify Finance to discuss the appropriate exception procedures.

8. DONOR/PHILANTHROPIC FUNDED PROJECTS

8.1. Fundraising milestone percentages are based on the total amount anticipated to be funded by donor gifts as indicated in the project’s fundraising strategy provided by Development.

8.2. The following is a requirement prior to the commencement of construction:

Phase	Fundraising Milestones		Notes
	Pledged	Cash in Hand	
Feasibility Study and Confirm Funding Strategy	-	-	Typically funded by operations, Capital Feasibility Studies, or endowment support. Funding source to be approved prior to study. Use of gift funds for study must be approved by EVP regardless of cost.
Schematic Design (SD)	15%	-	G&B, FPC and Board approval required to start SD for \$5M or more; Fundraising strategy to be reviewed by FPC Milestone: 0% is required to be cash in hand of the 15% pledged
Design Development (DD) - Construction Documents (CD)	50%	25%	Committees and Board to be informed; Milestone: 25% is required to be cash in hand of the 50% pledged
Construction	80%	50%	Committees and Board to be informed; Milestone: 50% is required to be cash in hand of the 80% pledged

Each fundraising milestone requires a specific percentage of cash in hand in order to continue with each phase of the project. (Ex: The construction phase requires 50% of the 80% pledged is cash in hand.)

8.3. The remaining gift pledges must be scheduled to be collected within five years of the construction start date. Bequests may be part of the funding strategy with approval of Finance.

8.4. Donor funded projects need to align with the Campus Master Plan.

8.5. Any exception to the milestones stated above needs to be approved by the EVP Finance.

For further guidance, please contact the Development Office for their donor related policy.

9. USE and MANAGEMENT of PROJECT FUNDS

- 9.1. The capital analyst in Finance will establish the appropriate accounting for the capital project. At the start of the project, Finance will transfer any funds received to the project account. Such transfers will include all funding from operations, gifts and contingency funding if gift or grant funding has not been fully received.
- 9.2. Before a project's construction phase is permitted to begin, the following must take place:
 - 9.2.1. All funds within the funding strategy must be committed in writing for 100% of project cost.
 - 9.2.2. Any source of funding for an authorized expenditure which has not been received must have an available source of contingency funding identified and committed.
- 9.3. A review of gift funding and expenditures will be performed routinely and during each fiscal year end close. Based on this review, adjustments will be made as needed and contingency funding may be returned to its origination.
- 9.4. At project closeout, any remaining unrestricted funds will be returned to the central capital budget, from which funds may be reallocated. Restricted donor funds will be discussed with Development and the donor to determine where the funds can be released when the related asset is placed in use.

10. POLICY REVIEW

- 10.1. Finance will review the policy at least annually to ensure the guidelines are reasonable and aligned with the College's priorities and strategic direction.

11. POLICY EXCEPTIONS

- 11.1. Any exceptions to the policy must be reviewed by Finance and approved by the EVP of Finance and Administration.

Appendix 1 – High Level Review

Purpose: to outline the internal process that will occur when a capital project comes to ideation outside of the annual budget process.

1. Project manager or Facilities is contacted by an employee of the College to work on a project, purchase equipment, etc. Costing or quote for a project may occur to understand scope of work required.
 - a. Project Manager or Facilities directs employee to work with their Capital Budget contact to submit a request into Anaplan.
2. Finance reviews the costing against possible funding sources
 - a. Capital Budget
 - b. Operating budget
 - c. Endowment
 - d. Donor/Gift
3. Finance gathers project information and funding availability to be reviewed by the appropriate approver (Section 7)
4. The approval or decline is communicated to the requestor and Project Manager/Facilities via Anaplan
5. If approved, Finance will assign a project number and budget; project status will be included the capital project meetings
6. If donor funded, Finance will coordinate with Development and Project Manager/Facilities to ensure fundraising milestones are met prior to each stage of the project before proceeding (Section 8)