

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 Capital Development Process

- A. All Major Capital Projects require committee review and board approval.
 1. A university shall not divide a Major Capital Project into multiple contracts, each with an estimated cost of \$10,000,000 or less, for the purpose of evading committee review and board approval.
 2. Projects that originally were not required to enter the capital development process, but subsequently are forecasted to meet the definition of Major Capital Projects.
 3. Major Capital Projects where the board and the university share with other entities (e.g., 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 for university use and are subject to review under Board Policy 7-207(A)(1).
- B. The capital development process for any university Major Capital Project is divided into 6 phases: Master Plan, Annual Capital Plan, Capital Improvement Plan, Individual Project and Financing, Project Construction, and Project Closeout.
 1. Master Plan. Master Plans will be developed by the universities for university campuses to guide their development, which will align with the university's strategic plan pursuant to Board Policy 1-206. During the Master Planning phase, the University Governance and Operations Committee and the board focus on the relationship between the university's mission statement, strategic plan, and campus physical development plans.
 - a. The Master Plan shall define the campus planning boundaries.
 - b. Sub-Area Plans within the campus planning boundaries shall be developed as the universities deem necessary, and submitted to the University Governance and Operations

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 2

Committee for review as set forth in subsection (B)(1)(h) below.

- c. Master and Sub-Area Plans should define the direction, physical needs, Land Acquisition, and overall approach of the university for a 10-year timeframe. Campus physical development plans should be based on the academic and research services the institution intends to provide, on the student population it projects to serve, and on the image the university leadership wishes to project.
- d. A list of other large parcels of university land outside of the campus planning boundaries, including any planned uses for the parcels, shall be submitted to the University Governance and Operations Committee in an appendix of the Master Plan. Large parcels are those that are greater than 100 acres or those that have been identified as being in a strategic location.
- e. Master Plans shall be brought to the University Governance and Operations Committee for review and to the board for approval.
 - (1) The universities will maintain an ongoing planning process and conduct comprehensive Master Plan reviews.
 - (2) Each university will have a Master Plan that has been approved by the board. The board will approve any revisions to the Master Plan.
- f. The presentation of materials to the committee and board shall include an identification of major areas of public concern, if any, and how the plan will address those concerns.
- g. The Master Plan shall support the university's mission statement and strategic plan.

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Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 3

- h. Sub-Area Plans shall be brought to the University Governance and Operations Committee for review and to the board for approval under the following circumstances:
 - (1) Plans deviate from the guidelines established by the approved Master Plan; and
 - (2) Plans pose a potential for identifiable impact on the local municipalities and/or communities, either adjoining or remote from campus boundaries. This impact shall be discussed as appropriate.
 - i. Board approval of a Master Plan does not constitute approval of any specific projects or developments included in the Master Plan. All such projects must follow the capital development process as outlined in this Chapter 7.
 - j. Approval of specific design standards or architectural guidelines that may be references in a plan shall be delegated to the university president after the plan is approved.
2. Annual Capital Plan. Each university shall submit an Annual Capital Plan (ACP) for the upcoming 12-month period in accordance with the calendar and form approved by the Executive Director of the Board. The ACP identifies Major Capital Projects that contribute to the attainment of the university mission statement and strategic plan, justifies the project need and cost, and defines elements of the scope, schedule, budget and funding and/or financing plan. The University Governance and Operations Committee and the board focus on the strategic planning perspective when reviewing and approving the ACP.
- a. Major Capital Projects included in the ACP are carried forward from the previously approved CIP. In order for a project to appear in the ACP, it must first have been approved as part of the prior CIP.

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 4

- (1) If a project has not appeared in a prior CIP, a waiver of this board policy can be requested in order for a project to appear on an ACP that has not appeared on a CIP.
 - (2) For previously approved projects that have not received individual project and financing approval, the project shall be re-submitted for ACP approval.
- b. ACPs are reviewed by the University Governance and Operations Committee and approved by the board.
 - c. Amendments to the ACP shall be reviewed by the University Governance and Operations Committee and considered for approval at board meetings for projects requiring budget and/or scope increases and for new projects added outside of the regular ACP schedule.
 - d. Each new project submitted for ACP approval shall include a concise Project Justification Report to the board. The project justification report shall be in a form developed by the Executive Director of the Board and should justify the need for the project based upon the university's mission, strategic plan, and other supporting documentation. The Project Justification Report shall include at least the following information:
 - (1) Prior University Governance and Operations Committee and board action;
 - (2) Statutory and board policy requirements;
 - (3) Project justification, strategic implications, and project compliance with mission, university and system strategic plans and goals, campus Master Plan and community input process. When applicable, this

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 5

section may also include a review of how the project aligns with the following university priorities:

- (a) Academic and research needs;
 - (b) Student support requirements;
 - (c) Operational priorities; and
 - (d) Funding sources/financing options.
- (4) Project description, scope and compliance with space standards, including the expected useful life of the project;
 - (5) Project delivery method and process;
 - (6) Project costs and the methodology used to develop the Total Project Cost, including estimates prepared by professionals and comparison of cost to other similar previously approved projects and completed projects from the databases established pursuant to subsection B.5.e.(4), including an explanation of significant cost differences from the comparable projects;
 - (7) Project status and schedule;
 - (8) A fiscal impact and finance plan, which explains how the universities intend to fund the project, and to include annual debt service and the impact to the funding sources that will pay the debt service, as well as annual operations and maintenance costs;
 - (9) A backfill plan for how Release Space will be reoccupied, including an estimate of associated costs and source of funds.

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 6

- (10) A description of other related projects including related Infrastructure improvements;
- (11) The number of anticipated Third-Party Projects, component unit projects, and long-term leases that are commercial in nature expected to be entered into in the next year and that require board approval; and
- (12) Project site plan.

e. Description of project financing:

- (1) Universities must designate the funding sources required to construct each project proposed in the ACP. If the project will be debt financed, the plan must include the funding sources for debt service.
- (2) The ACP must include 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.
- (4) The final maturity of any capital financing undertaken by a university will not exceed 40 years or the estimated useful life of the capital asset being acquired or constructed, whichever is less.

f. If Major Capital Projects require specific Legislative review:

- (1) The projects may be presented to the Legislature, or its designated committee, for review after receiving ACP approval.

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 7

- (2) The request for Legislative review shall include the estimated costs of the project, and if applicable, the bond issuance.
 - (3) Use of bond authority for a project in excess of the amount initially approved by the board and reviewed by the Legislature will require board approval prior to seeking review of the increased amount by the Legislature.
 - g. Authority granted by ACP approval
 - (1) ACP approval authorizes the universities to seek Legislative review for debt-funded or Third-Party Projects, if applicable.
 - (2) The university may transfer funds among expenditure categories in the total project budget without board approval.
 - (3) Board approval is required to amend an ACP.
- 3. Capital Improvement Plan. Each university will complete an annual Capital Improvement Plan (CIP), as required by State statute and board policy. During the CIP phase, the University Governance and Operations 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 Major Capital Projects for the coming fiscal year, which is the year following the submittal of the report, and forecast Major Capital Projects that may begin in the subsequent three fiscal years.
 - a. The annual CIP serves three main functions:

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 8

- (1) To serve as a reference document for current facilities inventory and related financial management information;
 - (2) To request general fund monies, including Building Renewal, from the state; and
 - (3) To identify Major Capital Projects the university intends to implement during the next fiscal year along with a forecast of proposed activities in the following three fiscal years.
- b. Each university will submit to the University Governance and Operations Committee a fully developed CIP in accordance with the calendar approved by the committee chair. The plan shall include the following elements:
- (1) Capital allocation for projects by source and use of funds;
 - (2) Building Renewal report;
 - (3) Deferred Maintenance report;
 - (4) Building Inventory report;
 - (5) Lease Report;
 - (6) Land Report;
 - (7) Capital Project Status Report;
 - (8) Capital Project Status Report for projects that have been submitted to the Joint Committee on Capital Review and have not been substantially completed;
 - (9) One-year capital plan plus a three-year forecast;

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 9

- (10) For first year projects, project descriptions, justifications, scope, delivery method and budgets, including alignment with university-specific and system-wide strategic plans and goals;
- (11) Debt capacity in accordance with Board Policy 3-411 “Annual Report on Debt Capacity”; and
- (12) The number of anticipated Third-Party Projects, component unit projects, and long-term leases that are commercial in nature expected to be entered into in the next year and that require board approval.

c. Authority granted by CIP approval

- (1) CIP approval authorizes the universities to contract for outside professional and consultant services, construction management and preconstruction services, and site investigation and preparation.

d. Building Renewal

- (1) Building Renewal funds shall be calculated for every eligible building by the universities each year utilizing the formula approved by the Legislature’s Joint Committee on Capital Review (A.R.S. § 41-793.01) and instructions from the board office. Each university shall request from the Legislature, via the submission of the annual CIP, the total amount of Building Renewal calculated.
- (2) The amount of funds generated by the Building Renewal formula for each eligible building shall be included in the building inventory report, which is incorporated into the annual CIP. The report also shall list the estimated Deferred Maintenance for each building.

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 10

- (3) Building Renewal appropriated by the State may be used for projects as defined in State statute (A.R.S. § 41-790) or in session law.
 - (4) Building replacement values along with building age are the primary variables in computing the State-appropriated Building Renewal request. The board office and universities shall develop and maintain a methodology to be used for calculating the estimated replacement values for the building inventory report. The board office shall provide direction to the universities for calculating estimated building replacement value and Building Renewal.
 - e. The board office and universities shall develop and maintain a methodology for developing space inventory guidelines to assist in planning potential Capital Projects and to estimate building replacement values.
- 4. Individual Project and Financing. Major Capital Projects that are included in an approved ACP must be submitted for individual project and financing review by the University Governance and Operations Committee and approval by the board, based upon the budget, schedule, scope, and other considerations as warranted. Each project will be submitted separately and may be submitted at the same meeting as the ACP.
 - a. Authority granted by individual project and financing approval
 - (1) Individual project and financing approval authorizes a university to proceed with financing and execution of construction contracts for an approved project.
 - (2) A project must be resubmitted to the University Governance and Operations Committee for review and then forwarded to the full board for approval, if the university does not initiate construction within 12

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 11

months of individual project and financing approval by the board.

- (3) If a project's gross square footage changes by 15% or more or if the Total Project Cost increases, the university shall report the changes to the board office.

5. Project Construction. During project construction, the university awards contracts and constructs the project in accordance with Board Policy 3-804 "Professional Services and Construction Services Procurement". During project construction:
 - a. Universities select or continue with previously selected consultants;
 - b. Universities proceed with the bidding process, contractor selection, contract execution, contract award and construction;
 - c. The universities may transfer funds among expenditure categories in the total project budget without University Governance and Operations Committee or board approval;
 - d. University Governance and Operations Committee review and board approval is required for increases in Total Project Cost; and
 - e. The universities shall develop procedures as follows:
 - (1) The selection of architect/engineers, construction managers, contractors, and selection of specialty consultants and the monitoring of construction shall be consistent with board policies;
 - (2) These procedures shall include controls to ensure that projects requiring Legislative approval obtain approval prior to commencing construction;

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 12

- (3) Project control procedures shall include university requirements for change orders, cost estimates, project reporting, and records management; and
 - (4) A cost information database shall be developed for completed projects to provide actual cost information for similar projects.
 - f. Building design for accessibility: All new buildings and structures constructed or renovated at each university shall comply with all applicable laws, regulations and policies, including the provisions of the Arizonans with Disabilities Act of 1992, A.R.S. §§ 41-1492, applicable university policies, as revised, replaced or amended from time to time, relating to making public buildings accessible and functional for individuals with disabilities.
 - g. Plaques for buildings: A university may install a plaque on a new building. If installed, the plaque shall carry the names of members of the board in office at the time the construction contract was awarded and other participants deemed appropriate.
- 6. Project Closeout. During project closeout, the project reaches substantial completion, the university completes building commission and 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. The universities shall develop and maintain consistent procedures for project closeout.
- C. Forms referenced in this chapter: Under the direction of the Executive Director of the Board, the board 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 University Governance and Operations Committee and the board in an effective format and manner.

Policy Number: 7-102	Policy Name: Capital Development Process
Policy Revision Dates: 6/15/2023 (effective 7/1/2023), 6/9/2022, 6/2020, 9/2018, 4/18 (effective 7/1/18), 2/18, 11/16, 4/12, 6/09, 4/08, 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 13

- D. Waivers: A university may request a waiver of this board policy as long as it is in the best interest of the university and it complies with applicable State laws.