



Issue Paper

PAPERS EXAMINING CRITICAL ISSUES
FACING THE MICHIGAN LEGISLATURE

**FY 2014-15 CAPITAL OUTLAY PROCESS
FOR MICHIGAN PUBLIC COMMUNITY COLLEGES
AND UNIVERSITIES**

by

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INTRODUCTION

State funding for capital outlay provides a major source of support for university and community college building projects. The State Building Authority (SBA) reports that it has financed \$2.5 billion for the State share of university projects since 1979, and \$407.3 million for the State share of community college projects since the 1990s.¹ The Legislature enacted several reforms to the capital outlay process in 2012. The Governor implemented these reforms through his fiscal year (FY) 2014-15 budget recommendation, which included new capital outlay planning authorizations for two community colleges, one university, and an FY 2013-14 supplemental recommendation for one State agency project. This issue paper provides an overview of the FY 2014-15 capital outlay budget process specifically as it relates to new capital outlay planning authorizations for universities and community colleges.

BACKGROUND

Public Act 430 of 2012 amended the Management and Budget Act to provide reforms to the State's capital outlay process. New to the process was a requirement that the Department of Technology, Management, and Budget (DTMB) and the Joint Capital Outlay Subcommittee (JCOS) chairperson and vice-chairperson review and evaluate capital outlay project requests from State agencies, universities, and community colleges considering specific criteria by March 1 of each year. Pursuant to MCL 18.1242, the review is required to include:

- investment in existing facilities and infrastructure;
- life and safety deficiencies;
- occupancy and use of existing facilities;
- sustainable design and efficiencies;
- estimated cost;
- institutional support;
- operating costs;
- impact on tuition, if any;
- impact on job creation in Michigan; and
- history of State appropriations to the institutions through the capital outlay process.

Based on the above criteria, the DTMB reviewed capital outlay project requests for FY 2014-15. Along with the factors listed in MCL 18.1242, the DTMB scored projects on the following additional criteria:

- impact on core mission of the institution;
- whether the project is focused on a single, stand-alone facility; and
- history of compliance with JCOS and DTMB project requirements.

In order to implement the 2012 capital outlay reforms, the DTMB required more information with initial capital outlay requests to enhance the overall understanding of projects. Community colleges and universities are required to submit capital outlay five-year plans to the DTMB and the JCOS by November 1 of each year. Included with the FY 2014-15 five-year plans submitted to the DTMB by the required due date (November 1, 2013) were 12 university and 17 community college requests for State-funded capital outlay projects that initially totaled over \$960.0 million. The DTMB did not score and rank four community college submissions (Gogebic, Kellogg, Oakland, and St. Clair) due to concerns regarding the ability of the State to bond for the types of projects requested. As a result of the process, the Governor's FY 2014-15 budget recommendation included three new capital outlay

¹ State Building Authority FY 2013 Project Cost Summary Report, May 2014.

planning authorizations. They included the Number 1 ranked university priority request, Ferris State University; and the Number 1 and Number 2 ranked community college requests, West Shore Community College and Lake Michigan College. Details regarding the review process conducted by the DTMB are available at the following website:

https://www.michigan.gov/documents/budget/G_446686_7.pdf

When the Legislature passed the FY 2014-15 budget in June 2014, no new capital outlay planning authorizations were included. In September 2014, the JCOS held four public hearings giving community colleges and universities the opportunity to present their requests to the Legislature. Seventeen community colleges and 12 universities provided presentations on their capital outlay requests. Some of those requests have changed, or have been modified in scope and/or cost since November 2013. Two of the colleges that originally submitted requests (Oakland and St. Clair) did not present to the JCOS due to bondability issues raised by the DTMB.² Two community colleges (Lansing and Washtenaw) did not submit requests to the DTMB in November 2013, but subsequently made requests to the DTMB and the JCOS. Institutions that substantially revised their request after their original submission include Grand Valley, Michigan State, Northern, Wayne State, and Glen Oaks.

Table 1 provides a short summary of requests as they were presented to the JCOS in September 2014. Projects that have changed since the November 2013 submission to the DTMB (in scope and/or cost) are noted. It is important to point out that changes made to requests subsequent to the November 1, 2013, submission date have not been reviewed by the DTMB, and that the changes possibly make the original score irrelevant.

Table 1
FY 2014-15 CURRENT PROJECT REQUESTS

Project	Total Cost	State Share	Institution Share
Universities:			
Central Michigan University: Center for Integrated Health Studies. The project consists of a 62,000-square-foot new structure. Central states that the facility will allow the university to address its needs for classroom and laboratory space. The building would include mediated classrooms, dry laboratory space, at least one lecture hall, and designated student collaboration space. The project was ranked Number 7 among university capital outlay priority project requests by the DTMB.	\$24,000,000	\$18,000,000	\$6,000,000
Eastern Michigan University: Strong Hall Renovation. Strong Hall was constructed in 1957. The project would replace outdated building systems (building envelope, mechanical, plumbing, electrical, interior systems, ADA accessibility, equipment, and other issues). The 87,500-square-foot proposed renovation project would also provide additional instructional and research laboratories for Physics and Astronomy, and Geography and Geology, Global Mapping/GIS, and Geo-tourism. Since the November submission of the request, Eastern has increased the total cost of the project from \$45.0 million to \$47.0 million. The project was ranked Number 4 among	47,000,000	30,000,000	17,000,00

² Oakland Community College notified the DTMB that the college was withdrawing its request from consideration.

FY 2014-15 CURRENT PROJECT REQUESTS			
Project	Total Cost	State Share	Institution Share
university requests by the DTMB.			
Ferris State University: Swan Building Annex Renovations. The \$30.0 million project includes the renovation of 47,086 square feet and a 34,462- square-foot addition. The Swan Building was constructed in 1966. The renovation includes mechanical systems and life/safety issues, and would result in LEED certification. The project would facilitate doubling the size of the Welding Engineering program, create the Center for Advanced Manufacturing, and repurpose printing facilities for both programs. The project was ranked Number 1 among university requests by the DTMB.	30,000,000	22,500,000	7,500,000
Grand Valley State University: Health Sciences Classroom and Office Building. This project was not the university's original priority request for FY 2014-15 and was initially the university's second priority request. Therefore, the project presented to the JCOS was not scored and ranked by the DTMB. The request submitted to the JCOS would provide for the construction of a new 95,000-square-foot laboratory and faculty office building on the GVSU Grand Rapids campus.	50,000,000	30,000,000	20,000,000
Lake Superior: Center for Applied Science, Engineering and Technology Addition. The 6,500-square-foot project would provide for approximately 5,500 square feet of flexible, open laboratory space for industrial robotics equipment, mobile robotics equipment, a water tank suitable for both remotely operated underwater vehicle and acoustic testing, and approximately 1,000 square feet of classroom/laboratory, collaboration, and office spaces. The project was ranked Number 3 among university requests by the DTMB.	5,000,000	3,750,000	1,250,000
Michigan State University: Interdisciplinary Science and Technology Building. The \$120.0 million request would provide for a 170,000-square-foot new building to provide laboratory space to support additional faculty and growth in research. It would allow for the co-location and integration of programmers and researchers in the areas of neuroscience and intellectual disabilities, molecular and genomic methods, applied computation and data science, nanotechnology, food and water security, sustainable energy production and storage, and 21 st century manufacturing. This project was recently substantially revised from a previous request that included a \$207.0 million/300,000-square-foot facility. The project as originally proposed was ranked Number 11 by the DTMB.	120,000,000	30,000,000	90,000,000
Northern Michigan University: Learning Resources Center Renovation. The project includes renovation of a 198,000-square-foot library built in 1966 into a state-of-the-art high-tech instructional support and learning resources hub. The project includes improvements for the Olson Library, the Central Upper Peninsula and NMU Archives, public broadcasting stations (WNMU-TV, WNMU-FM), Audio-Visual Services, and instructional and student support areas. The project also addresses \$1.7	40,000,000	30,000,000	10,000,000

FY 2014-15 CURRENT PROJECT REQUESTS			
Project	Total Cost	State Share	Institution Share
million of life/safety issues including improved fire suppression, exit and emergency lighting, and over \$16.0 million of deferred maintenance. The project has changed substantially since the original request, which included a cost of \$65.6 million and approximately 290,300 square feet. According to the university, the cost was reduced by leveraging technology and resources across campus to reduce space needs. As originally proposed, the project was ranked Number 9 among university capital outlay requests.			
Oakland University: Varner Hall Expansion. The \$98.0 million project would provide for a 258,000-gross-square-foot addition to Varner Hall to address space shortages and to support the projected growth in enrollment for the College of Arts and Sciences. The building addition would house digital classrooms, technology-enabled learning studios, and student-centered laboratories, as well as expansion of space for faculty-student interaction. When complete and fully occupied, the project would create other space on campus for use and re-purposing by other campus departments. Oakland recently increased its cost estimate by 8.2%, from \$98.0 million to \$106.0 million. The project was ranked Number 10 among university requests by the DTMB.	106,000,000	30,000,000	76,000,000
University of Michigan-Ann Arbor: School of Dentistry Project. The project includes the renovation of 50% of existing space in the Dental Building and W.K. Kellogg Foundation Institute, and a 50,000-square-foot addition to ameliorate overcrowded and outdated lab space, provide adaptable and flexible space for research, and provide appropriate space for clinical education, while expanding the statewide patient care services (134,000 patient visits in 2013). The university recently increased the total cost to reflect a grant from Delta Dental to fund a special needs clinic. The project was ranked Number 2 among university requests by the DTMB.	122,000,000	30,000,000	92,000,000
University of Michigan-Dearborn: Engineering Laboratory Building Replacement. The project would replace the existing 92,125-square-foot building that was constructed in 1959. The facility provides support for degrees in the fields of electrical and computer engineering, industrial and manufacturing systems engineering, and mechanical engineering. The university maintains that the project will allow for the doubling of Engineering and other STEM graduates, while providing a state-of-the-art facility to increase capacity for programmatic and research growth. The project was ranked Number 6 among university requests by the DTMB.	90,000,000	30,000,000	60,000,000
Wayne State: STEM Laboratory Classroom Building Project. The revised \$30.0 million project request consists of the renovation of the eight-floor/100,000-square-foot Science and Engineering Library that was closed in January 2014. The renovated facility would allow	30,000,000	22,500,000	7,500,000

FY 2014-15 CURRENT PROJECT REQUESTS			
Project	Total Cost	State Share	Institution Share
for new technology and teaching methodologies, and the integration and re-assignment of existing and redesigned STEM courses that are currently housed in dated facilities and teaching labs. This project was originally proposed as a new 45,300-square-foot/\$20.0 million new building project. As originally submitted, the DTMB ranked this project Number 5 among university requests.			
Western: College of Aviation Renovation and Addition. The \$19.0 million project would renovate and add to existing space at the College of Aviation to address current and future enrollment needs, energy deficiencies and space appropriateness, and safety concerns. The Aviation Education Center building is located on the WMU College of Aviation campus in Battle Creek. The project includes classrooms, composites/paint labs, simulation center, research center, student briefing rooms, office space, and bringing the building up to current energy, life safety, and accessibility codes. The project was ranked Number 8 among university requests by the DTMB.	19,000,000	14,250,000	4,750,000
Subtotal - Universities:	\$683,000,000	\$291,000,000	\$392,000,000
Community Colleges:			
Bay de Noc Community College: Student Success Center Renovation. The \$4.0 million project will provide a central location for academic support resources including tutoring, supplemental instruction, the writing center, and support programs for students from disadvantaged backgrounds. The project includes a 10,000-square-foot renovation with a possibility of a slight addition of new space. The project was ranked Number 5 among community college capital outlay priority requests by the DTMB.	\$4,000,000	\$2,000,000	\$2,000,000
Delta: Saginaw Center Project. The \$12.2 million/35,000-square-foot proposed new construction project would support the delivery of educational programs in the City of Saginaw. Delta College current leases a 21,000-square-foot 1950s elementary school in Saginaw. The new building would include high-level technology, special use training rooms and science labs. The project was ranked Number 4 among community college requests by the DTMB.	12,204,000	6,102,000	6,102,000
Glen Oaks: Library Repairs, Renovation and Upgrades. The \$2.5 million 12,000-square-foot renovation project includes the renovation of the library to include the testing and tutoring center. Renovations will provide for increased electrical capacity, installation of insulation, and construction of student study meeting areas. The renovation will address preexisting problems of walls separating, insufficient electrical supply, inadequate lighting and traffic flow through the library. The revised request was submitted to the DTMB in September 2014 and therefore not scored or ranked for the FY 2014-15 budget cycle. The original priority request (reviewed and ranked Number 8 by the DTMB) from Glen Oaks was	2,500,000	1,250,000	1,250,000

FY 2014-15 CURRENT PROJECT REQUESTS			
Project	Total Cost	State Share	Institution Share
the \$7.2 million Student Success Center Addition.			
Gogebic: Lindquist Student and Conference Center Exterior Cladding. The request consists of replacing the exterior cladding on the Lindquist Student Center to create a weatherproof shell on the building. The current building exterior is cracking and allowing water to penetrate the interior of the building. The college states that replacing the exterior cladding will reduce energy costs, protect the building structure, and extend the useful life of the facility. The college does not have funds available to provide for the 50% match normally required for a community college project. Therefore, the college is requesting a special maintenance grant from the State for the entire amount. The DTMB did not score and rank Gogebic's request due to bondability concerns.	1,100,000	550,000	550,000
Grand Rapids: Early Childhood/Laboratory Preschool Facility. The proposed \$7.2 new construction project (addition) would provide for a 23,200-square-foot building to be constructed behind the Applied Technology Center Building on the Main Campus. The facility would include state-of-the-art preschool demonstration classrooms and observation areas. The project was ranked Number 11 among community college requests by the DTMB.	7,213,000	3,606,500	3,606,500
Kellogg: Miller PE, Wellness & Community Services Building. The project includes renovating space for the criminal justice program, lifelong learning, physical education, wellness activities, the competitive robotics program; and demolition and repurposing of the existing natatorium and the construction of an NCAA basketball regulation-sized gymnasium in its place. The gymnasium expansion would include seating for 1,000 spectators for home basketball, volleyball, and community events. The project would include separate team locker rooms and storage space for the entire complex. Funding also would support replacing the entire mechanical infrastructure of the building. The DTMB did not score and rank this project because of bonding concerns related to the nature of the facility.	15,000,000	7,500,000	7,500,000
Kirtland: Health Professions Education & Training Center. The \$10.2 million project would expand and relocate Kirtland's health sciences programs to a site on Interstate 75 between Roscommon and Grayling. The college states that the new 35,000-square-foot facility would make health science resources more accessible and allow for the repurposing of existing space to house a middle college focused on technical education as well as transfer education. The project was ranked Number 7 among community college requests by the DTMB.	10,200,000	5,100,000	5,100,000
Lake Michigan: Napier Academic Building Renovations & Upgrade. The project includes renovation of 50 classrooms and three lecture halls; a new service center to assist faculty with redesigning curricula, identifying and learning new technologies; new collaborative learning spaces; replacement of heating and cooling plant and air	16,626,800	8,313,400	8,313,400

FY 2014-15 CURRENT PROJECT REQUESTS			
Project	Total Cost	State Share	Institution Share
handling units; bringing building facilities to current ADA standards; and providing a Student Success Center to support student success in the classroom and successful transition into the workforce. The project was ranked Number 2 among community college requests by the DTMB.			
Lansing: 505 N. Capitol Avenue Building Renovation Project. The \$6.0 million/19,500-square-foot renovation project would provide additional specialized space for the study of mathematics and create a Center for Veterans Services. The request was submitted in February 2014 and therefore was not evaluated and ranked by the DTMB.	6,000,000	3,000,000	3,000,000
Mid Michigan: Library Learning Services & Bookstore. The \$4.0 million project would include 8,600 square feet of new construction (5,000 square feet on the ground level and 3,600 square feet on the second level) and provide for renovation of the existing library and surrounding areas to combine Library Learning Services (Retention, Academic Testing and Assessment, Tutoring, Writing and Reading Center, Math Lab, Supplemental Instruction and all of the Library Services) in one location to enhance services and provide additional space for the bookstore. The Student Services Department, including Financial Aid, Registration, and Advising, would be aligned in a centrally located physical environment. The project was ranked Number 12 among community college requests by the DTMB.	4,000,000	2,000,000	2,000,000
Monroe: Renovation of East & West Technology Buildings. The 60,000-square-foot renovation project includes repurposing of 1960s space previously used for industrial technology instructional facilities to usable classroom and laboratory space for high-growth, high-demand instructional programs and expansion of student support services. The project was ranked Number 13 among community college requests by the DTMB.	12,000,000	6,000,000	6,000,000
Mott: Southern Lakes Branch Center: Rehabilitation/Renovation. The project includes the renovation of two buildings totaling 57,575 net square feet. They house general education academic classrooms, academic occupational therapy and physical therapy programs, continuing education programs, and the Institute for Medical Simulation. Proposed renovations include replacing the boiler and chiller, fire suppression pump and controls, facility HVAC systems, as well as re-roofing/re-flooring, and site modifications and improvements. The project was ranked Number 8 (tied with Glen Oak's original request) among community college requests by the DTMB.	4,045,600	2,022,800	2,022,800
Northwestern: Multi-Disciplinary Student Learning & Simulation Center. The \$20.0 million project includes renovation of the current West Hall building on campus and expansion to provide for an additional 35,000 square feet for a Student Learning and Simulation Center. The	20,000,000	10,000,000	10,000,000

FY 2014-15 CURRENT PROJECT REQUESTS			
Project	Total Cost	State Share	Institution Share
Center would include learning spaces designed to promote interactive learning experiences; simulation-based experiential learning; and dynamic teaching. The Center would integrate relevant Student Services and Learning Support functions, space for student organizations, and simulation-based experiential learning and dynamic teaching. The project was ranked Number 6 among community college requests by the DTMB.			
Oakland: Culinary Studies Institute & Conference Center. The \$29.7 million project request consisted of a proposed new state-of-the-art Culinary Studies Institute and Conference Center. The 105,000-square-foot facility would house a 35,000-square-foot culinary/kitchen area and a 70,000-square-foot conference area. The DTMB did not score and rank the project due to bondability issues. Therefore, the college withdrew its request and did not present the project to the JCOS during the September 2014 hearings on capital outlay priority requests.	N/A	N/A	N/A
St. Clair: Student Services One-Stop Configuration. The \$2.0 million project included renovation of 11,000 square feet previously used for an on-campus day care facility. This would provide for the relocation of the existing Student Services to become "seamless" as a "one-stop" service area (enrollment, registration, advising, and financial aid) for student intake. The DTMB did not score and rank the project due to bonding issues. Therefore, the college did not present the project to the JCOS during the September 2014 hearings on capital outlay priority requests.	N/A	N/A	N/A
Schoolcraft: Applied Science Building Addition & Renovation. The \$9.3 million project includes an addition of 15,000 to 20,000 square feet and the renovation of 33,000 square feet to upgrade the Applied Science building, built in 1965. The addition would allow for relocation of the existing labs to larger, adjacent spaces; several computer labs for expanding the Biomedical Information Technology programs; along with five additional technology classrooms and labs to support the growing Additive Manufacturing curriculum. Existing lab space would be renovated and repurposed to allow for the update and expansion of the college's welding program. Approximately 33,000 square feet of classroom, lab, and office space would be renovated and brought up to modern-day technology standards. The project was ranked Number 10 among community college requests by the DTMB.	9,270,000	4,635,000	4,635,000
Washtenaw: Center for Advanced Transportation. The project includes the construction of a 30,000-square-foot addition to the Whitworth Occupational Education Building along with renovations to the existing building. The addition would be reserved for Science, Technology, Engineering and Mathematics; and Genetics, Robotics, Information Technology and Nano-Technology-related advanced manufacturing technology courses in a laboratory setting. The addition would include 15	12,500,000	6,250,000	6,250,000

FY 2014-15 CURRENT PROJECT REQUESTS			
Project	Total Cost	State Share	Institution Share
instructional laboratories, classrooms and support spaces CAD-CAM, CAE, Non-Destructive Testing, and Computer Measurement. The request was submitted to the DTMB in March 2014, and therefore was not scored or ranked for the FY 2014-15 budget cycle.			
Wayne: Eastern Campus Repurposing & Upgrading Project. The project consists of upgrading 50,000 gross square feet of a 192,625-square-foot building that was constructed in 1982, and a 20,000-square-foot building addition. Renovations would include electrical and mechanical systems, equipment security systems, restrooms, and other improvements. The addition would house a new welcome center, library, classrooms, laboratories, and a small auditorium/lecture hall. The project was ranked Number 3 among community college requests by the DTMB.	18,000,000	9,000,000	9,000,000
West Shore: Technical Center Renovation and Addition. The \$4.1 million project includes the renovation of 66,000 square feet and a 2,700-square-foot addition. The building was originally constructed in 1969, with an addition in 1993. Renovations include remodeling space for larger class size capacity, expanding high-bay welding lab capacities, and general remodeling of classrooms, corridors, offices and restrooms. The project was ranked Number 1 among community college requests by the DTMB.	4,100,000	2,050,000	2,050,000
Subtotal Community Colleges	\$158,759,400	\$79,379,700	\$79,379,700
Total University & Community College SBA Projects	\$841,759,400	\$370,379,700	\$471,379,700

N/A: Request not presented to JCOS.

STATE FUNDING

The SBA is the mechanism the State uses to fund its share of costs for State agency, university, and community college capital outlay projects. Bonds are issued by the SBA. The property is conveyed to the SBA and leased back to the State. Pursuant to the SBA Act (Public Act 183 of 1964), the conveyance and lease are subject to prior approval by the State Administrative Board, the Attorney General, the governing body of the institution of higher education, and the Legislature. While the SBA holds title to the property, the State, through annual appropriations, pays rent to the SBA to fund annual debt service costs of SBA bonds. After the bonds are paid off, the property is transferred back to the State (State agency projects) or institution (university and community college projects). Pursuant to Section 8(15) of the SBA Act, the SBA may not have obligations outstanding at any one time in a principal amount totaling more than \$2.7 billion. Interest and costs of borrowing are not included in this limit. Based on the \$2.7 billion bond cap, the SBA estimates that the remaining available bond capacity is currently approximately \$1.0 billion.

CONCLUSION

While the statutory limits regarding the bond cap would allow for State funding of all currently requested university and community college projects, the real issue for the State is debt costs related to the bond issue and its impact on future fiscal years. The State share of project costs for universities traditionally is based on a 75/25 State/institution match. Over recent years, however, this

match has been limited to a maximum State share of \$40.0 million for projects contained in Public Act 278 of 2008 (the FY 2007-08 capital outlay budget), and \$30.0 million for projects contained in Public Act 329 of 2010 (the FY 2010-11 capital outlay budget). Community college projects traditionally have a 50/50 State/institution match. Fiscal Year 2014-15 requests for colleges and universities, as presented to the JCOS in September 2014 and assuming a \$30.0 million maximum State share per project, would result in a State cost of \$370.4 million. Annual SBA rent payments to retire the debt would total between \$25.9 million and \$33.3 million for approximately 17 years.

The capital outlay process for this year could be a turning point in how State-funded capital outlay projects are actually selected. The procedure outlined in MCL 18.1242 envisions an objective evaluation of project requests and a competitive process to select deserving projects based not only on what the project will provide to the State, but also on the efficient use of resources used to accomplish the project. To achieve that goal, and to ensure fairness to community colleges and universities that follow the requirements of the Management and Budget Act, the DTMB initiated the FY 2014-15 capital outlay process pursuant to the intent of the 2012 capital outlay reform legislation. Whether a capital outlay bill is enacted for FY 2014-15 or in a subsequent year, it is now up to the Legislature to continue the implementation of capital outlay reforms.

