



Topic: POLICY FOR ESTABLISHING AND EXPENDING CONSTRUCTION PROJECT BUDGETS		
Policy # FA-2	Version: 3	Effective Date: 07/01/13

Purpose:

The purpose of this policy is to clarify the guidelines to be followed when establishing budgets and expending funds for construction projects (“Projects”).

Policy Statement:

Funds that have been dedicated for projects are derived from a variety of sources. These sources include: University bonds, Public School and College Authority (PSCA) or state provided bonds, gifts, deferred maintenance funds, plant funds, and reserve funds. The University of Alabama’s philosophy is that capital project funds should be primarily for brick and mortar structures and landscaping/hardscaping/lighting or hard construction costs. In general, construction and contingency should represent the majority of the total project cost which is the equivalent of 85% or higher of the total project budget.

Policy:

The term “Projects” refers to all construction projects administered by Construction Administration. Capital projects are long-term investment projects that require larger sums of monies to fund new construction and additions and renovations that will improve existing facilities. Capital projects may also include infrastructure and land improvement projects, such as: road projects, storm water drainage, utility projects, parking lots, and decks. In some cases, equipment purchases may be considered capital projects. Buildings and other infrastructure projects with a total project cost greater than \$750,000 must be approved by The Board of Trustees of The University of Alabama (the “Board”). However, all projects (regardless of cost) which substantially impact the visual appearance of the University or that involve historically significant or otherwise notable structures, as determined by the Chancellor or designee, must be presented to the Board for review and approval. Equipment purchases, as a group for a particular project or as a single item, that exceed \$500,000 must also be approved by the Board. Exceptions to the rule on equipment purchases exist if the project is funded from grant or sponsored program funds. Departmental projects that are not designated as construction projects such as large software projects (over \$100,000) will be provided oversight by Financial Accounting and Reporting (FAR).

Below is a synopsis of the types of budget line items that are specified for University Construction Projects.

Construction - Initially, this budget category corresponds to the approved construction amount included in the project budget based on the estimated cost of construction by total amount as well as per gross square foot. Prior to the receipt of bids, the total construction line indicates the maximum amount available for award of a construction contract(s); thereafter, the construction line reports the actual award amount for each contract, and shall include change order amounts as the project progresses. If the project is to be bid in more than one bid package, a budget shall be established for each in a separate bid package. The individual packages shall be described, e.g. site work, infrastructure, building contract, etc. This category consists of all structures used for operating purposes. This includes all permanently attached fixtures, machinery, and other components that cannot be removed without damaging the buildings (NACUBO - FARM).

Site Development - This budget line is established to fund project related infrastructure needs, such as storm drainage and utility connections. This category may also be used to budget the cost to clear the site for construction which includes the demolition of buildings.

Contingency - This budget item is reserved for unforeseen design and construction costs and incidental expenses. In accordance with Board Rule 415, “the contingency allowance should not exceed a maximum of 5% of construction cost for new projects and 10% of construction costs for renovation projects.” Construction cost is defined as following items combined: Construction, Site Development, Shared Costs for Utilities, Hazardous Materials, Landscaping, and Donated Materials. Contingency will be recalculated when a revised Project Approval Form (PAF) is issued and the amount of the underlying items increase or decrease.

Hazardous Materials - Materials such as Asbestos are considered hazardous if it appears on a list of hazardous materials prepared by a federal, state, or local agency, or if it has characteristics defined as hazardous by such an agency. (*The Environmental Protection Agency maintains a searchable database of hazardous materials at <http://yosemite.epa.gov/oswer/lol.nsf/Alphabet?OpenView&restricttocategory=A&count=200>*). Excavation may expose buried hazardous materials resulting from prior use of the proposed site or adjacent property to the site. This category must be used for costs associated with testing and removal of hazardous materials. It must be separated in order for FAR to determine the appropriate method of financial reporting under the Governmental Accounting Standards Board (GASB).

Landscaping - This budget line item covers the cost of all labor and materials necessary to install plant materials, irrigation systems, and uplighting for the building. The cost to design the landscaping for a project is not charged to the project as the University has a landscape architect on staff that will prepare the design documents. Plant materials should adequately meet the scale of the structure. The design of the exterior landscape should appear as if it has been established for many years. All capital project landscaping projects must adhere to the standards in the Campus Master Plan and be approved by the Landscape and Grounds Advisory Group.

Architect/Engineering Fees - Fees paid to the architect/engineer for basic and additional services (including special consultants) and **reimbursable expenses** are included in this budget category.

Telecommunications and Data - This budget line item includes all costs necessary to provide telecommunication and data services. These costs include providing access to University fiber, wired and/or wireless network connectivity (including network closets, network switches, network ports, access points) and phone connections.

Furniture, Fixtures, and Equipment (FF&E) - This expense category includes the costs associated with moveable furnishings, equipment and fixtures. Movable furniture, fixtures or other equipment have no permanent connection to the structure of a building or utilities and can be removed without damaging the building. Examples of FF&E include desks, chairs, computers, electronic equipment and tables.

NOTE: For fraternity and sorority construction projects, moveable FFE is not allowed to be funded from any type of University funds (including Greek building funds) because once the projects are finished they are operated under the control of the House Corporations.

Security System and Access Control - This budget line item covers the cost of all labor and materials necessary to establish and/or enhance campus security and safety for the building. This includes items such as intrusion alarms, security cameras, and keys (electronic and manual).

Shared Cost for Utilities- Typically, utility services (power, water and gas) related to the construction project that is supplied from the University distribution system will be paid by the University based on the appropriate operating procedures. For construction projects across multiple users (Auxiliary, E&G, etc.), utility services expense will be allocated based on the appropriate method, pro rata (i.e. square feet) among those areas determined by Energy Management. Construction Administration defines the terms and conditions of utility expense in the General Contractor’s agreement including addendums. Construction Administration will notify (in writing via a Project Execution and Strategy

Schedule (PESS) form Business Administration for Construction and Physical Plant (BACPP) if terms related to utility expense differ from the typical procedures as described above.

Project Management Fee - This fee is paid to offset the costs of a project manager to manage the project from conceptual design through final completion. A project manager may be an employee of the University or an external service provider (i.e., Hoar Program Management). This fee is established at 2.0% of the combined cost of the following items: Construction, Site Development, Shared Costs for Utilities, Hazardous Materials, Landscaping, Donated Materials, and Contingency. Project Management Fees will be recalculated when a revised PAF is issued and the amount of the underlying items increase or decrease.

Other Fees and Services - Examples include:

- *Testing Fees* - Costs associated with surveys, soil tests, geotechnical testing, and all construction tests to be paid by the owner, such as concrete tests & Heating, Ventilation, and Air Conditioning (HVAC) system tests. If material, some of these testing fees may be budgeted as a separate budget line.
- *Inspection Services* - Costs associated with inspections, e.g. architect/engineer's project representative, roofing inspection, and threshold inspection.
- *Impact/Environmental Fees* - Fees required to be paid to governmental agencies or other utility providers.
- *Advertising and Printing* - Fees necessary to advertise the project for bid in accordance with Title 39 (Public Works Statute) and associated printing costs.
- *Commissioning* - This cost is associated with the process of verifying, in new construction, that all the subsystems for Heating, ventilating and air conditioning (HVAC), Plumbing, Electrical, Fire/Life safety, Building Envelopes, and Interior Systems (example laboratory units), achieve the owner's project requirements as intended by the building owner and as designed by the building architects and engineers. Building commissioning is a quality-focused process necessary for both non-complex and complex modern construction projects. Normally, the initial commissioning team and a team leader (typically known as the commissioning authority) are involved from project initiation through one year of occupancy. If the expense is substantial, commissioning could be a separate budget line item on the Board submittal and will require Board approval if the cost is greater than \$100,000.

Projects Funded from Tax-Exempt Bond Proceeds:

As noted above, a large majority of University capital projects are funded through the issuance of University bonds. In general, the period of repayment on bond proceeds is 30 years. Therefore, as the capital project budget is prepared, construction project managers and users should be mindful of the length of time required to pay off the project. The majority of expenses for a capital project should be for services necessary to construct the facility, actual bricks and mortar, and other interior finishes that are attached. Furniture and equipment that are needed to place the building in service are an allowable use of tax-exempt bond funds. For example, a classroom building would require tables, chairs, desks, podiums, and other items to furnish the building. However, purchasing several computers for a computer lab would be more efficiently accomplished through other funding sources than a capital project based on a computer's useful life.

Records Retention:

The University has adopted a record retention policy for projects that are funded with tax-exempt funds. Documentation should be maintained for the entire terms of the bonds issued plus three years after the bonds have matured. If the bonds are refunded in later issues, the combined term of the issues plus three years will be the required retention period. For example, if bonds were originally issued in 2004 and refunded in 2012, the record retention period would be through 2045 (2012 plus 30 years plus 3 additional years).

Unallowable Expenses for Construction Projects:

Due to fiscal responsibility, some items that are allowable per the University Spending Policy may not be allowable items for construction projects. Thus, this policy provides guidance to assist in identifying operating expenses that are not allowable on construction projects.

Below are the guidelines that will assist in identifying operating expenses that are not allowable on construction projects. While the list is not all inclusive, it does capture the majority of items that should not be charged to capital and construction project budgets. If project managers are not clear about the allowability of a particular type of expense, they should contact Business Administration for Construction and Physical Plant (BACPP) to obtain a final determination. Items will be added to this list as they are discovered and researched:

- Meal and entertainment expenses
- Promotional items (articles of merchandise, generally with a logo such as the University and/or other types of corporations, businesses, etc.), used in marketing or advertising. Examples include T-shirts, caps, tote bags, imprinted pens, and key chains.
- Travel, unless specifically approved by The Office of the Vice President for Financial Affairs and Treasurer
- Personal items including clothing, rewards, electronics, decorations, etc.
- Purchase of vehicles, trailers, fork lifts or similar equipment as well as any maintenance costs associated with these items
- General and administrative costs normally charged to the operating budget such as office supplies, cleaning supplies, removal tools, etc. *
- Payroll charges not specifically identified to a particular project
- Computer software and/or software upgrades used for operations
- Moveable FFE for all Student Organization projects (i.e., Fraternity and Sorority housing)

***Exception:** Consumable office supply (toner, copy paper, pens, etc.) costs directly associated with an on-site project office may be charged to the construction project, provided appropriate documentation is maintained to indicate the related project.

Purchasing and Payments to Vendors:

Project budgets are reviewed on a regular basis to ensure they do not include unallowable purchases. If a purchase is found to be unallowable on a project but allowable on state funds, it is corrected with a journal entry and the costs are transferred to a state funded account. Any purchase that is found to be unallowable and cannot be paid for with state funds will be discussed with the Vice President for Financial Affairs and Treasurer to determine proper handling.

All purchase requests for capital and construction projects, with the exception of telecommunication charges, are submitted to Business Administration for Construction and Physical Plant (BACPP). Requests are reviewed by a member of management to ensure that purchases are appropriate and allowable. If requests include questionable items, an email that requests justification is sent to the requester. If requests include unallowable items, they are returned to the requester and he/she is required to correct the request by either resubmitting it or by sending an email with details of the correction to the appropriate professional staff member.

Furnishings and Design purchase requests are submitted to Business Administration for Construction and Physical Plant by an email from the Furnishings and Design department. The purchase requisitions are reviewed in Banner. If the purchase is accurate, appropriate and allowable, the requisition is approved in Banner. If there is a question or unallowable item on the requisition, it is disapproved in Banner and the Furnishings and Design department is notified.

Payments to Vendors

In addition to the Purchasing and Accounting Policies and Guidelines followed by The University of Alabama, Business Administration for Construction and Physical Plant (BACPP) administers further requirements for Construction Projects. These additional requirements are necessary due to

governing laws, regulations as well as the policies of the University including the Alabama Building Code, Title 39, Title 41, and Board Rule 415.

A contract must be in place before payment can be processed. In certain circumstances, a Letter of Intent (LOI) may be used as an authorization for payment. A contractual agreement ensures a complete understanding of the responsibilities and terms. All requests for payment are to be submitted to BACPP.

Miscellaneous Disbursement Vouchers (MDVs) cannot be used to disburse payments other than those to utility companies as approved by BACPP.

Timely Expenditure of Tax-Exempt Bond Funds:

For projects that use tax-exempt bond funds as a funding source, the project should be completed within three years of issuance of the bond proceeds. Projects may be approved by the Board with a funding source of future bonds, and projects may be started prior to the issuance of bonds. In those instances, the board resolution must declare the University's intent to use bond funds. The following language must be included in the resolution for the project:

WHEREAS, officials at The University of Alabama have determined that the Board will incur certain costs in connection with the acquisition, construction, and installation of the Project prior to the issuance of the Bonds, and the Board intends to allocate a portion of the proceeds of the Bonds to reimburse the Board for certain costs incurred in connection with the acquisition, construction and installation of the Project paid prior to the issuance of the Bonds; and

The University of Alabama does hereby declare that it intends to allocate a portion of the proceeds of the Bonds to reimburse the Board for expenses incurred after the date that is no more than sixty days prior to the date of the adoption of this resolution, but prior to the issuance of the Bonds in connection with the acquisition, construction, and installment of the Project; therefore,

This portion of this resolution is being adopted pursuant to the requirements of Treasury Regulations Section 1.150-2(e).

Funding:

In order to ensure timely expenditure of bond funds, the University draws down bond funds first for projects that are funded with bonds. If the project is funded with a combination of federal and state grant funds or PSCA funds in addition to tax-exempt bonds, the University will drawdown the grant funding and state bond funding first followed by the bond proceeds unless the grant agreements require a pro-rata drawdown of funds. FAR is responsible for funding issues which may arise from an excess of the approved Project Approval Form (PAF).

A PAF is required for each project regardless of value of the contract(s). For all projects including capital projects, a Project Worksheet and all relevant backup documentation must be attached to the PAF. A PESS (Project Execution Strategy & Schedule) must be completed for projects exceeding \$100,000. Board Resolutions are also required to be attached to all BOT projects.

PAF Revisions:

Revisions to the PAF are required when adjustments to the total project budget are required. These revisions include:

- Increases in the total budget of BOT items, which also requires a revised BOT resolution.
- Changes due to bids that come under/over the original PAF amount.

- A scope change such as changing a lay in ceiling to a hard ceiling; or changing pre-cast concrete versus natural stone.
- Changes that impact the budget beyond the amount of contingency.

Note that adjustments to accounts within specific expense accounts that do not change the total budget can and should be adjusted by submission of a Cost Projection Worksheet with explanation to BACPP in a timely manner.

Contract Funded by Multiple Projects

In order to gain cost efficiencies, it may be necessary to jointly bid portions funded by more than one project fund (“multiple project funds”) in the same contract. In which case, it must be clearly defined in the base bid/alternates and other documentation.

Contract Funded by Three or Less Projects

The accounting for a contract split will be managed by BACPP as coordinated with the project manager. Therefore, no cost allocation PAF is necessary. The contract, board related documents, and other appropriate backup documentation will be used for an audit trail.

Contract Funded by More Than Three Projects

The Project Manager should provide all information to the Director of BACPP in order to evaluate the necessity of a PAF Cost Allocation. If the contract is split between four or more projects a cost allocation may be used. When a cost allocation is required, a journal voucher will be prepared by BACPP, which will allocate the joint expenditures. The project that is incurring the cost (Funded Project) on behalf of another project will receive a credit, and the project that shares the expense (Funding Project) will be debited for the expenditure. The contract, board related documents and other appropriate backup documentation will be used for an audit trail.

Cost Allocations:

Cost allocations are authorized and implemented through a PAF. Cost allocations facilitate keeping the original budget in place when a bid benefits multiple projects. Cost allocations are used when funding from a project is used to fund a joint cost in another project. For example, site development costs for infrastructure may be bid in one project that actually supports multiple projects. When identified, a cost allocation will be made from the funding project to the project incurring the cost. Cost allocations will increase expenditures in the funding project for its share of the joint cost and expenditures will be decreased in the project incurring the cost. A separate line in the project budget will be used for cost allocations. Cost allocations that are capitalized with the funding project will use line item 795997, and cost allocations that are capitalized with the funded project will use line item 795996. Cost allocations must be supported by documentation that includes all documents and analysis that provides the basis for the amount of the cost allocation. For example, if utilities’ piping is being run to multiple projects, there must be an appropriate method for the allocation (i.e., linear sq. ft.).

Designated Repository:

ESTUS is a collaborative platform that is the designated repository of the Division of Financial Affairs of The University of Alabama. As such, there are on-boarding and off-boarding mechanisms provided by Financial Affairs Information Technology which must be utilized by Construction Administration, Contract Administration, and BACPP. An example of this would be the procedure for Construction Administration to add a new stakeholder (Project Manager, Administrative Assistant, General Contractor, Architect, etc.) to ESTUS. These designated roles control the level of access which the stakeholder is given.

Limited access is also provided to the public at <https://construction-estus.fa.ua.edu/default.aspx>

All stakeholders have the ability to create email alerts within their access area and unsubscribe to the alerts they no longer require. Instructions can be found at <http://office.microsoft.com/en->

us/windows-sharepoint-services-help/get-e-mail-alerts-for-changes-RZ010233836.aspx?section=3. RSS feeds are also available as a tool to alert of changes by a stakeholder. Instructions for RSS feeds can be found at <https://construction-estus.fa.ua.edu/Lists/How%20do%20I/AllItems.aspx> Additionally, stakeholders can email a document or the section in ESTUS via a link. Instructions for email an ESTUS link can be found at <http://office.microsoft.com/en-us/windows-sharepoint-services-help/send-a-link-to-a-document-library-file-RZ010233836.aspx?section=4>

E-mailing documents to stakeholders as attachment results in full mailboxes and unnecessary use of server storage space. In addition, this action results in circumventing procedure as well as engaging in an inefficient process. If a stakeholder is sent a link and are unable to access this link--- this alerts Construction Administration to a failure in the on-boarding process so that it may be addressed immediately.

Active Projects:

Project managers and project accountants will update the Notes Log and User Defined Fields at a minimum on the 15th and the 30th of each month AssetWorks Integrated Workplace Management (AIM). This information is made available on both ESTUS and AIM. A Cost Project Worksheet must be completed and uploaded to ESTUS on the 15th of each month. This process facilitates timely reconciliation of Projects. A Cost Project Worksheet must also be completed each time there is a financial commitment (Change Order, PAF, Purchase Order, Revisions, etc.).

Project Completion:

In order to facilitate the timely financial closeout of Projects, all billing by external contractors and vendors must be complete and final (excluding Contractor retainage and final Architect draw) within 90 days from the executed date of the Certificate of Substantial Completion (COSC). At which point, Financial Accounting and Reporting will suspend further Banner activity.

Work Orders by internal stakeholders of the University (OIT, Facilities, etc.) related to a Project must be billed within seven days of the work completion of an individual work order. When a Project Manager requests an estimate of work, a new work order should be generated.

Upon completion of a project, a Financial Closeout PAF must be completed and approved for each project. Any unused funds will be returned to the originating source. In addition to all other project completion requirements required by both Construction Administration and Contract Administration, the following applies:

Property Insurance Requirements

A Certificate of Occupancy must be sent to the Director of Risk Management & Special Projects, which prompts the conversion from builder's risk (property insurance for construction projects) to permanent property insurance coverage.

A Property Insurance Form must be completed once a construction project is completed to allow the transition from builders risk insurance to the University's property insurance program. The form should be completed and submitted within 30 days of the issuance of the occupancy permit to the Director of Risk Management & Special Projects for review. This form is required in the following situations:

- newly completed buildings;
- projects where the improvements result in a material change (greater than 15%) in the replacement value of the building;
- the footprint of an existing building is expanded or reduced; or,
- unattached structures are added (e.g. dumpster enclosure, energy plants, etc.) to an existing building.

The form is available on the Alabama Department of Finance-Division of Risk Management (ALDORM) website:

http://www.riskmgt.alabama.gov/PDFs/2011/property_insurance_request_2011-10.pdf

The ALDORM form is needed for each separate and distinct structure even though a connection to another structure with underground piping, electrical systems, etc. may exist.

The form is not required for interior renovations, reconfigurations, or other interior improvements, unless the project includes the replacement or addition of a critical building system, and the project increases the replacement cost of the building by more than 15%.

Some of the requested information will be completed by Risk Management including the Division, Location, Item Number, Insured, Contents Value, and Town Class. In general, most of the requested information is self-explanatory, and the sections to be completed by the Project Manager are highlighted on the attached Property Insurance Request. The University's Risk Management office will complete the form, take photographs of the building, and submit the information to ALDORM.

The Director of Risk Management & Special Projects is available to answer any questions or to clarify any points of confusion or concern.