

Provided by the Office of Budget and Planning

FACILITIES

Major Renovations, Demolitions, New Construction and Moves Principles for Determining the Payer of Costs

Facility enhancement can occur in a variety of ways. Most notably, a structure can be closed for a period of time for major renovations, demolished to make way for a replacement of a new building, or a completely new structure may be built. During this time, affected units are either relocated to temporary leased space or fit into existing buildings on campus. Units may also be relocated to different space for reasons unrelated to renovation or construction. These activities are major in scope but occur frequently enough that a set of principles has been developed to inform all interested parties of how costs associated with these changes will be handled. The principles are different for activity-based units and non-activity-based units budgeted in the general fund. The intent is that these principles will be followed in all cases unless a special arrangement is agreed upon in writing in advance through discussion with the Provost or his/her staff.

Background

When the University Budget system was implemented, a set of principles was articulated. “Space is expensive. Not only are the costs of our current space (operating, upkeep, and renewal) one of our largest areas of fixed costs, the costs associated with expanding our facilities are enormous. If we can make better use of existing space, we can save substantial funds that would otherwise need to be devoted to new buildings. Although we do not fully cost space in the model, even this modest set of charges provides units with an incentive to economize on space, somewhat countering the traditional incentive for units to grab as much space as they can get. In our system, if one unit leaves space and another picks it up, the Provost does not generally transfer the funds to cover the operating costs of the space. Rather, the first unit gets to keep the savings that arise from occupying less space, and the second unit pays for the increase in costs from existing resources.” Budgeting with the UB Model at the University of Michigan

The following information describes how facility attributions are handled in our current budget system. The annual space survey collects occupancy data. The raw survey data are communicated to the Office of Space Analysis. They verify the data, correct any errors detected and lock the inventory for use in central reporting. This process is typically completed in February or March of each year. The Office of Budget and Planning uses the data to determine space occupancy. Each year’s budget is developed using space occupancy data that is lagged two years. When the fiscal year-end adjustment for utilities is calculated, updated occupancy data is available, so information lagged only a single year is used. In some instances, occupancy data for partial years is used to more accurately reflect each unit’s costs.

Utility budgets include charges for steam, natural gas, electricity, and water and sewer. Building utility budgets are adjusted annually by each utility component's rate changes, then assigned to units based on their share of the building's net assignable square feet. Meters are almost always the method of monitoring and recording usage but in cases where centralized systems (such as chilled water plants) are in place; other methods of allocating usage are sometimes used.

Plant Operations attributions include custodial/building services, routine maintenance (typically under \$20,000), grounds/landscaping and refuse/rubbish. This cost is a proxy for average annualized expenses and is budgeted at a dollar amount per square foot. Plant Operations attributions are adjusted annually by increases associated with the general operating program. Once the amount is set during the annual budget process, no changes are made in the attributions at year-end. Actual expenses by building may vary significantly from the budgeted amount as these costs are volatile and increase with a building's age and condition. Our method smoothes costs to the units by creating predictable attributed expense streams.

Rental space is charged directly to the units and is not part of the budget model.

Beginning in FY 2011, a Capital Renewal Fund is being created to fund major renovations of buildings every other year with priority placed on academic facilities. The full assessment will be phased in over the five-year period from FY2011 – FY2015 and is comprised of two components. The one that impacts activity-based unit facility costs is a new per square foot charge to be added over a three-year period (\$.90 per year) from FY2012 – FY2014.

Within the Net Funding originally provided to activity-based units at the inception of the University Budget system, funds were provided to support expenses associated with the facilities occupied. Over time units have contributed the resources necessary to cover changes associated with rates or occupancy. These combined resources budgeted to cover the cost of a facility become the first source to cover any expenses associated with its renovation, demolition, replacement, and to cover the temporary costs of alternative occupancy (surge space). The unit is responsible for any incremental space that it acquires as well as the temporary costs associated with the project. The principle is the same whether the move to temporary space is during renovation or due to demolition of a building. Once a building is emptied of occupants, the space is assigned in the database to PE-Plant Extension (department 678900). Therefore, units are never charged for both unoccupied space as it is being renovated and its replacement space for temporary occupancy.

Principles for Activity-Based Units

Partial year occupancy

1. When units move out of space, we will pro-rate the facility's attribution for the number of months of occupancy. We will rely on a manual system to track this flow, as the central data system typically does not capture the date when occupancy shifts from the activity-based unit to PE-Plant Extension or to another unit. Actual utilities will be charged for the months the building was occupied. The Plant Operations assessment will also be pro-rated to reflect the partial year, different than our standard practice of assessing charges only during the initial budget process.

Responsibility for funding costs associated with temporary occupancy

2. The unit will retain the budget for the old building in its net funding. This means it will have those resources available to cover the costs of moves to a temporary location (rental space or university building), potential renovations necessary to accommodate the occupants in that temporary space, furnishings and equipment, IT connectivity, phones, rent, utilities, janitorial services, signage and all other facility-related expenses. * This creates incentives for units to be as prudent and cost-conscious as possible. Typically these expenses would be charged to unit accounts.

Responsibility for funding costs associated with move to a new or renovated facility

3. When a unit moves back to renovated space or into a new facility that replaces a demolished building, it will pay for all costs associated with the second move including new furnishings and equipment if it chooses not to reuse items from the prior space. *

New space costs are estimated each year by the relevant facilities units and appear as increases in mandatory costs on a schedule prepared by the Office of Financial Analysis. The rates are determined by the type of building and reflect estimates based on actual costs from prior year adjusted for expected rate changes.

Requesting support from the Provost

4. Units always have the right to request support from the Provost for any of the costs associated with interim accommodation and/or new space. Typically, the request would need to show that these costs are greater than the actual or budgeted (whichever is higher) space as well as explain why the unit cannot cover these costs within its existing resources. Should the Provost agree to any funding, the commitment will be provided in writing.

Exclusion of new furnishings and equipment expenditures from tax calculation

5. When a new building is constructed, a unit may incur significant costs for furnishing the space even when existing furnishings are used as much as possible. There should be no presumption that central support will be provided beyond any resources committed for that purpose in the formal construction project budget. The furnishings and equipment costs for new or substantially renovated space will be excluded from the expenditure base on which the UB model taxes are calculated. In order to segregate expenditures for these items, units should set up a separate project/grant under their department ID within the

Departmental Equipment Fund (fund 82000) for the purchases and provide notification to the Office of Budget and Planning. At the appropriate time (lagged two years), OBP will eliminate the expense from the tax calculation.

*Unless these expenses are specifically covered within the formal Construction Project Budget.

Principles for Non Activity-Based Units

Non-activity-based units budgeted in the General Fund are not directly charged for their space costs nor are these costs a component used in the development of the unit’s budget. However, these units are provided with reports indicating the costs of the space they occupy since this is a significant allocation of resource dollars with the expectation that the information will help reinforce cost containment behaviors. Even though these units don’t have dedicated resources to cover their space operating costs that can be redirected to moving and renovation, they can be expected to contribute towards funding one-time moving or renovation expenses. Decisions are made on a case-by-case basis.

Moves

The following principles were developed for non-activity based units who are moving to a new location. The principles serve to contain design, furnishing and moving expenses, as well as keep “matched” furniture together in one location.

The principles are as follows:

- When a unit is leaving space that will be re-used by another U-M unit, and moving to space that is already furnished, the unit will **LEAVE** their existing furniture at the old space and use the furniture located at the new space.
- When a unit is leaving space that will be re-used by another U-M unit, and moving to space that is not furnished, the unit will **LEAVE** their existing furniture at the old space and purchase new furniture for the new space.
- When a unit is leaving space that will not be re-used by another U-M unit, and moving to space that is already furnished, the unit should **SELL** or give away their furniture and use the furniture located at the new space.
- When a unit is leaving space that will not be re-used by another U-M unit, and moving to space that is not furnished, the unit will **TAKE** their existing furniture with them and use it at the new space.

	New space is furnished	New space is not furnished
Old space will be re-used by a U-M unit	Leave furniture at old space, use furniture in new space	Leave furniture at old space, purchase furniture for new space
Old space will not be re-used by a U-M unit	Sell /give away furniture, use furniture in new space	Take furniture to new space

When applicable, units are responsible for paying to move existing furniture or purchase new furniture. Units always have the right to request support from their executive officer when needed. Typically the request would include an estimate for expenses and explain why the unit cannot cover these costs within its existing resources.

In rare instances, the executive officer may choose to bring a request forward to the Provost for consideration.

For More Information

The following resources are available to answer questions about space-related issues:

<u>For questions or information on</u>	<u>Contact</u>
Funding for space-related expenses	Alfred Franzblau af Franzblau@umich.edu
Space budget model calculations	Glenna Schweitzer glenna@umich.edu
Space needs and requests	Frances Mueller francesm@umich.edu
Lease space negotiations	Don Uchman duchman@umich.edu
Detailed moving schedules and logistics	Mark Eboch meboch@umich.edu