



TENNESSEE BOARD OF REGENTS

MEETING:	Finance and Business Operations Committee Meeting
SUBJECT:	Project Substitution Request by the University of Memphis
DATE:	September 15, 2016
PRESENTER:	Vice Chancellor Dale Sims
ACTION REQUIRED:	Roll Call Vote
STAFF'S RECOMMENDATION:	Approve

BACKGROUND INFORMATION:

The Committee has received the recommended FY 2017-18 capital outlay recommendation from the Office of Facilities Development staff. As part of their recommendation the staff has addressed the request from the University of Memphis to substitute a \$44 million project to construct a music center (Music Center) for the existing \$36 million project to construct a biochemistry and biology building (Biochemistry Building). The Board guidance on project substitution is as follows:

- An institution would be allowed to request for consideration by the Board to substitute a project for a current recommended project. Consideration would be given to the need (formula score) and the dollar amount of the substitute project versus the replaced project and the overall justification for the request.
- Request for projects to be funded will be considered by the Board on an individual basis. Consideration will be given to new projects on main campuses with an amount of match funding of 50% or greater, a prioritization score of 75 or higher, and justification for the request.

The staff evaluation of this substitution is based upon the established scoring matrix and is consistent with our practice of requiring staff to consider issues related to types of space, space condition, whether space shortages exist, among other similar factors. Based on their analysis, staff has recommended against approval of this substitution. While concurring in the staff's analysis and application of the scoring matrix, other factors exist that the Board should consider in making a determination as to whether project

substitution is warranted. It is suggested that the Board consider the following additional circumstances in making this determination:

- **Campus Priority** – The President has asserted that at this time the Music Center is the highest campus capital project priority. Regarding the Biochemistry Building, the President has noted that technology changes make it possible for the campus to meet its needs in these fields with renovations to existing space. As such the Biochemistry Building is no longer the campus’ highest priority. Failure to permit the substitution would require the institution to proceed with a capital project that, in the judgment of the institution leadership, no longer suits the needs of the campus and does not meet the campus’ most urgent capital need.
- **Matching Funds Availability** – From University representatives we understand that matching funds are no longer available for the Biochemistry Building. If the Biochemistry Building were recommended by TBR, we suspect that there would be a significant delay in initiating the project due to the State requirement that matching funds be available prior to beginning construction. We also understand from University leadership that it has commitments to fully match the requirements for the Music Center. As such, allowing the Music Center substitution would permit the project to move forward on a timely basis.
- **Donor Issues** – We understand substantial commitments have been made by a small number of donors. These donor commitments were made with the expectation that the project would move forward in a timely basis. Failure to permit the substitution could put these match funds in jeopardy.
- **FOCUS Act Implications** – We acknowledge that this is the last year for which the Tennessee Board of Regents will make capital recommendations on behalf of universities. While not certain, it is likely that not permitting this substitution at this time only delays for one year a recommendation to THEC to pursue the Music Center. As noted earlier, this runs the risk of loss of existing match for a building that the campus leadership sees as its current top priority.
- **Risk to Other Projects** – As noted earlier, the requested substitution represents an increase in project size and a commiserate increase in state funding required. If substitution is permitted, this increase in project size could impact the State’s ability to address other projects that currently fall below the Biochemistry Building on the priority list. To partially mitigate this risk if a substitution is permitted, consideration should be given limiting to some degree the level of additional state funds required for the substituted project.

After weighing these factors, it is recommended that the substitution be approved under the condition that the state funding requested for the Music Center project be not more

than 10% greater than that recommended for the Biochemistry Building as illustrated below.

Row	Description	Total	State	Match
A	Biochemistry Building	\$ 36,000,000	\$ 26,362,500	\$ 9,637,500
B	Music Center - Requested	\$ 44,000,000	\$ 33,000,000	\$ 11,000,000
C	Music Center - Recommended	\$ 44,000,000	\$ 28,998,800	\$ 15,001,200
D	Music Center Requested Over (Under) Biochemistry Building (Row B - Row A)	\$ 8,000,000	\$ 6,637,500	\$ 1,362,500
E	Music Center Recommended Over (Under) Biochemistry Building (Row C - Row A)	\$ 8,000,000	\$ 2,636,300	\$ 5,363,700

Should this recommendation be adopted ultimately by the State, the University would be positioned to pursue its highest capital outlay priority in a timelier manner and without posing material risk to capital outlay projects from other institutions that rank below it on the priority list.