



The Issue of “Deferred Maintenance” within the State University System

How do we define it?

How do we address it?

How do we avoid it going forward?

December 15, 2021
(Revised 1/4/21)

The specter of “deferred maintenance” within the State University System (SUS) is not a new development; it has persisted for decades.

“The State University System of Florida consists of nine universities...The average age of all buildings is 21 years...The physical facilities of the [SUS] have not been adequately maintained over the past several years...resulted in a significant backlog of needed repairs and replacement projects (Deferred Maintenance)...” ~ **Deferred Maintenance Task Force, February 1986**

“The [SUS] consists of ten universities...The average age of all buildings is 24 years...universities are reporting an increasing backlog of needed building system repairs and replacement projects.” ...“To address this problem [Task Force recommends] request additional funding from a source other than PECO for \$100 million per year for the next two years...this will address primarily the identified critical issues...an additional \$50 million per year should be sought for the next two years to address the balance...this funding recommendation of \$300 million as a one-time appropriation does not solve the ongoing problem of Deferred Maintenance without the additional commitment to continued funding for these recurring issues, ideally on an annual basis.”

~**Deferred Maintenance Task Force, September 1998**

“Meeting these [2025 Strategic Plan] goals will require approximately...\$50 million per year for ongoing maintenance.”...“The Board should include at least \$50 million in the (LBR) for deferred maintenance.”

~ **Facilities Task Force, November 2012**

“Historical investment levels are not sufficient moving forward.”

~ **Sightlines Co. presentation to the Board, October 2017**

It is important to note that a general misunderstanding of what deferred maintenance is (and what it is not) has persisted in the SUS for decades, as noted in the 1985 Task Force report except below.

“The universities have identified approximately \$69.9 million of deferred maintenance needs...The Task Force examined these lists and agree that \$38.4 million are deferred maintenance projects. The balance (\$31.5 million) of the projects, although needed, cannot be as clearly identified as deferred maintenance. They may be better classified as major renovations or other capital outlay needs.” ~ **Deferred Maintenance Task Force, February 1986**

Today, the term “deferred maintenance” continues to be misused; it incorrectly includes projects that are more appropriately categorized as deferred capital replacement, major renovation or remodeling as well as other capital outlay needs. For historical perspective’s correlation to the current situation, the term will be used (incorrectly) for the moment to include the other capital items, but definitions and clarification will be made later in this document.

The SUS represents a significant portion of the State’s aggregate facilities inventory, comprising roughly 43% of the total, as reflected in the chart below:

**State of FL Lands & Facilities
Inventory, as of 10/9/21**

	Sq. Ft.	
Agencies	66,521,716	28.70%
Universities	98,915,227	42.70%
Colleges	64,168,850	27.70%
Water Mgt Dist	2,078,210	0.90%
Total:	231,684,003	100.00%

Of the SUS’s nearly 99 million sq. ft., roughly 40.8 million (41%) is *Education and General (E&G)* space; i.e. classrooms, labs, offices, gymnasiums, campus support services, etc., with the remaining non-E&G space comprised of housing, parking, athletics, sponsored research, etc. For the purpose of this discussion, it is important to delineate E&G space from non-E&G space in terms of funding for operations and upkeep. Generally speaking, non-E&G facilities are self-supporting; they generate revenues that, in turn, fund operations and upkeep, whereas E&G facilities are dependent on State appropriated dollars for funding operations (such as utilities, janitorial) and, importantly, maintenance (general upkeep). Historically, Plant Operation & Maintenance (PO&M) appropriations funded these expenditures, with maintenance being a minor portion. Now, with no incremental increase in PO&M for the past 6 years, funding for maintenance has shrunk even more. As a result, funding for upkeep falls to a statutory carve-out from PECO called “Sum of Digits”, referenced below.

Funding Source	Statutory Reference	Acronym	Avg Annual Funding (FY15-FY19)	Recent 3-yr Funding History (FY20-Present)*
Remodeling, Renovation, Maintenance, Repairs & Site Improvements	s. 1013.64(1)(a)	"Sum of Digits"	\$45,439,749	\$0

Statutorily, Sum-of-Digits (SOD) must “*expand or upgrade current educational plants to prolong the useful life of the plant*”, highlighting the original intent as funding for capital preservation, not deferred maintenance. However, deferred maintenance has become SOD’s primary use. As an aside, deferred maintenance is not unique to the SUS; it is an issue affecting similar higher education systems throughout the country, according to 3rd-party professionals, such as Sightlines, as well as the Education Advisory Board (EAB) and the National Association of College and University Business Officers (NACUBO).

Section 1013.64(1)(a), F.S. stipulates **(SOD)** “*shall be given priority consideration by the Legislature for appropriations allocated to the boards from the total amount of the [PECO] appropriated.*” In FY19-20 and FY20-21, the SUS received \$0 funding, and last

year the Board did not request any in light of limited PECO funds. However, it should be noted that, in 2019, the Legislature expanded eligible uses of E&G Carryforward balances to include FCO-related expenditures, including deferred maintenance. This alternate source of funding more than offset the lack of SOD funds in recent years, yet it remains insufficient to address the significant backlog of capital need that has accrued over many years. Based on a survey of the universities in October 2021, the backlog of “deferred maintenance” exceeded \$1.8 billion, as reflected in the chart below:

SUS "Deferred Maintenance" in E&G Space

(does not include items on the list submitted to the Governor’s Office of Policy & Budget last August) ¹

University ²	Projects		E&G Space		Buildings ⁴	
	# of Projects	(\$) Defrd Maint.	Net Assignable Sq Ft. ³	Defrd. Maint. /Sq. Ft.	# of E&G Bldgs	Avg. Age (yrs)
FAMU	95	\$87,899,700	2,000,000	\$44	96	43
FAU	90	\$95,622,000	3,000,000	\$32	119	24
FGCU	5	\$4,595,700	1,600,000	\$3	153	14
FIU	512	\$142,734,572	2,200,000	\$65	97	25
FSU	13	\$132,750,000	6,300,000	\$21	275	32
NCF	21	\$17,042,783	220,000	\$77	37	49
UCF	71	\$64,688,151	2,700,000	\$24	122	25
UF	1,137	\$974,822,837	14,000,000	\$70	1,614	36
UNF	23	\$11,275,000	2,600,000	\$4	39	25
USF	184	\$295,587,000	4,600,000	\$64	138	33
UWF	18	\$54,718,280	1,350,000	\$41	160	31
SUS Total	2,169	\$1,881,736,023	40,570,000	\$46 (avg)	2,850	31

1) Pursuant to Gov Office memo #21-034A Coronavirus State Fiscal Recovery Fund, Section 152 GAA, \$350M for Deferred Bldg Maintenance. Only certain critical needs were eligible for inclusion on list; such as ADA compliance, air quality, health/safety, etc.

2) Florida Poly is not included; no deferred maintenance. University totals include items that may be better clasified as major renovations and/or projected future capital outlay needs, not

3) Square footage is approximate, rounded. E&G = Education & General.

4) Bldgs listed are utilized predominantly as E&G, but may contain non-E&G space. Also, bldg age is based on occupancy date. However, NCF’s bldgs typically predate university occupancy (avg 19 yrs), so actual age is reflected in the chart above.

The above totals were supported by detailed lists from each university. Board staff reviewed the lists and concluded that much of the items therein, although extremely needed, did not represent deferred maintenance, technically speaking, and were more appropriately categorized as deferred capital replacement, major renovations and remodeling or projected future needs. Furthermore, it should be noted that the lists (the totals of which are reflected in the chart above) did not include items on the lists submitted separately to the Governor’s office two months prior pursuant to EOG Memo #21-034A, which included only certain eligible critical needs items for potential funding

from the Coronavirus State Fiscal Recovery Fund. Following a discussion of the Governor's Office list at the Board meeting held September 14, 2021, staff requested a list reflecting the rest of the proverbial pie; i.e. the remaining "deferred maintenance" items not on the Governor's Office list, so as to better understand the breadth of the issue.

Can the capital needs backlog actually be that high? Yes, but it is important to understand what the "need" is comprised of, as the liberal use of the term "deferred maintenance" over the years has inadvertently created misconceptions. The following excerpt from the 1998 Task Force report further evidences the issue:

"Age, or rather the need to replace a particular building system, could also be referred to as "Capital Renewal". This report acknowledges that at some point (identified to be between 25-30 years of life) the useful life of certain building systems must be considered for complete replacement (i.e. reinvestment in the facility infrastructure). Currently, due to the lack of an adequate funding source to address "Capital Renewal", these systems are being included in the criteria for Deferred Maintenance." ~ **Deferred Maintenance Task Force, September 1998**

The projects cited in the provided lists include many projects that are more appropriately categorized as deferred capital replacement (renewal) or major renovation/remodeling, not deferred maintenance. Nevertheless, there is a significant backlog of deferred capital need.

As to the validity of the current backlog, in 2019, the Board was presented with a report prepared by Sightlines (nka: Gordian), a company that specialized in analyzing system capital outlay needs. The report estimated the SUS backlog at \$994 million and, importantly, projected annual capital needs of \$200 million per year to simply sustain the status quo. At that point, Sum-of-Digits funding had ceased, but Carryforward (CF) was opened-up to FCO spending. With that in mind, using the Sightlines estimate, even if we conservatively assume only \$100 million per year in capital needs (i.e. half the Sightlines estimate, and only \$2.46/sf for E&G space), coupled with Carryforward spending to date, this still results in a significant current backlog, as reflected below.

"Deferred Maintenance" Backlog & Funding, 2019 - Present

Deferred Maintenance backlog (per Sightlines, 2019)	\$ 994,000,000
FY19: Annual accrual, capital needs	\$100,000,000
Sum-of-Digits funding	\$0
Carryforward, budgeted FCO expenditures	(\$220,035,741)
FY20: Annual accrual, capital needs	\$100,000,000
Sum-of-Digits funding	\$0
Carryforward, budgeted FCO expenditures	(\$144,261,804)
FY21: Annual accrual, capital needs	\$100,000,000
Sum-of-Digits funding	\$0
Carryforward, budgeted FCO expenditures	(\$182,808,362)
Net "Deferred Maintenance" backlog	\$ 746,894,093

Annual accrual = \$200M/yr per Sightlines report, but, to be conservative, the above chart assumes only \$100M/yr. Also, carryforward budgeted FCO expenditures above may include non-defrd maint items. For the purpose of the above, totals are assumed to be all deferred maintenance.

Regardless of the perspective one takes, the estimated “deferred maintenance” (i.e. deferred capital replacement, primarily) in the system is significant and, based on annual accruing needs and historical funding as a proxy for the future, the probability of eliminating it is not feasible; some level of “deferred maintenance” will likely be a permanent attribute going forward. Nevertheless, it must be managed. To that extent, future funding above historical levels is required.

On September 1, 2021, the Board approved the SUS 2022-23 Fixed Capital Outlay Legislative Budget Request (FCO LBR), which included a request for approximately \$39.1 million in Sum-of-Digits funding. At the following meeting, held November 4th, the Board amended the FCO LBR to include an additional request of \$800M, appropriated from General Revenue, to augment Sum-of-Digits and help address the backlog of “deferred maintenance”. Furthermore, the Board requested that staff a) re-engage the universities for a refined list reflecting their actual deferred maintenance, and b) provide a plan for avoiding the backlog going forward. The plan should also include definitions, clarifying what “deferred maintenance” is and is not, as well as a proposal for allocating funding.

Board staff subsequently re-engaged the universities for revised “deferred maintenance” lists and, for added perspective, their 10-yr projected capital needs. The lists, by and large, were mostly unchanged, with a few exceptions, as reflected in the following chart (see also attached lists):

Original List (11/4/21)			Revised List, as of 12/5/21						
University	# of Projects	Defrd Maintenance	# of Projects	Revised Defrd Maint. & Defrd Capital Replacement	Items submitted to Gov Office in Aug.	Total		Total 10-year Projected Capital Needs	(\$)/ Avg. / Year
						(\$)	(%)		
FAMU	95	\$87,899,700	95	\$87,899,700	\$11,785,000	\$99,684,700	5.9%	\$283,802,569	\$28,380,257
FAU	90	\$95,622,000	90	\$95,622,000	\$16,966,990	\$112,588,990	6.7%	\$123,344,000	\$12,334,400
FGCU	5	\$4,595,700	5	\$4,595,700	\$1,100,000	\$5,695,700	0.3%	\$8,848,820	\$884,882
FIU	512	\$142,734,572	512	\$142,734,572	\$21,063,496	\$163,798,068	9.8%	\$265,500,000	\$26,550,000
FSU	13	\$132,750,000	67	\$285,400,000	\$74,475,000	\$359,875,000	21.4%	\$382,274,060	\$38,227,406
NCF	21	\$17,042,783	21	\$17,042,783	\$7,620,997	\$24,663,780	1.5%	\$11,993,694	\$1,199,369
UCF	71	\$64,688,151	71	\$68,200,000	\$47,930,000	\$116,130,000	6.9%	\$282,200,000	\$28,220,000
UF	1,137	\$974,822,837	375	\$479,785,875	\$111,600,000	\$591,385,875	35.2%	\$486,786,963	\$48,678,696
UNF	23	\$11,275,000	23	\$11,275,000	\$11,300,000	\$22,575,000	1.3%	\$122,400,000	\$12,240,000
USF	184	\$295,587,000	184	\$100,443,777	\$21,280,000	\$121,723,777	7.3%	\$194,855,011	\$19,485,501
UWF	18	\$54,718,280	18	\$54,718,280	\$5,883,000	\$60,601,280	3.6%	\$92,000,000	\$9,200,000
FPU*	--	--	--	--	--	--	--	\$4,500,000	\$450,000
SUS Total	2,169	\$1,881,736,022	1,461	\$1,347,717,686	\$331,004,483	\$1,678,722,169	100%	\$2,254,005,117	\$225,400,512

* Florida Poly is not reporting any deferred maintenance at this juncture, but provided 10-yr Projection of Capital Needs.

Per the chart above, the aggregate deferred capital needs (\$1.68B), as revised, were marginally below the original estimates. Also of note, the universities' total estimated projected capital need of \$225M/year, on average, compares similarly to Sightlines' 2019 estimate of approximately \$200M/year.

One thing is clear, there is a significant and genuine need!

The Plan

What is Deferred Maintenance?

We need to clarify what deferred maintenance is and correlate it to the previously described "backlog". By defining it, in theory, this will resolve the persistent misapplication of the term, as well as illuminate the actual composition of the universities' "deferred maintenance" lists. To that extent, definitions were crafted based on information from various industry sources, and then submitted to the universities for input, culminating in the following:

Deferred Maintenance and Repairs – maintenance and repair activities not performed when they should have been or scheduled to be due to a lack of resources (e.g. funding, labor, time). As such, the needed repairs/maintenance are not performed and *deferred* to a later date. This includes preventive maintenance and/or repairs needed to preserve or maintain the asset, and failure to perform it leads to asset deterioration and, ultimately, asset impairment.

Deferred Capital Replacement – postponing the replacement of infrastructure and/or building systems (e.g. roofing systems, HVAC, boilers, chillers, sprinkler systems, etc.) after they have reached their mechanical life expectancy based on the manufacturer's stated timeline or that of industry standard, whichever is longer. Proper, ongoing maintenance and repairs should not be confused with planned capital investment for the replacement of infrastructure and/or systems.

Also, the decision to replace components/systems should not be driven solely by its life expectancy, but by broader consideration, such as, for example, cost-benefit analyses.

Projected Maintenance and Repairs – a forecast of routine maintenance and repairs, both scheduled and unscheduled, necessary to maintain a building/facility’s functionality and aesthetics as well as help sustain its value and useful life. This includes, by reference, items in s. 1013.01, F.S. for “Maintenance and repair”.

Projected Capital Improvements – a forecast of capital needs over a predetermined period, representing the addition of a permanent, durable change or the restoration of an aspect of an asset/facility that will enhance the overall value, increase its useful life and/or adapt it to a new use. Generally, this would include items described in s. 1013.01, F.S. for “Remodeling” and “Renovation”.

Critical Need – capital needs that require immediate action to restore a facility to normal operation, stop accelerated deterioration, or correct a cited safety hazard, especially those conditions that potentially impact an entire campus or pose a risk to health and safety.

Examples: a) A campus-wide chilled water system in imminent danger of failure, which would result in all facilities being non-functional, essentially shutting down a campus. b) The discovery that a building’s structural beams have dry rotted to the point of compromising structural integrity and, as such, the facility cannot be safely used without immediate repair.

In light of the above definitions, coupled with cursory tours of several campuses and numerous discussions with facilities staff, the universities do a commendable job of timely and diligently maintaining/repairing their E&G facilities. In fact, *Deferred Maintenance*, as defined above, is minimal, and the majority of the university’s lists reflect projects more appropriately categorized as *Deferred Capital Replacement*. Does that diminish its importance? Absolutely not! Remember, as noted earlier in this document, **the average age of SUS E&G facilities is 31 years**. Point being, the majority of the systems therein, and supporting infrastructure, have exceeded their economic and mechanical lifecycles and, thus, are in increasingly critical need of replacement. Does a university wait until leaking roofs cause ancillary structural damage; do they wait until faulty electrical systems fail, disrupting research; or should they wait until an end-of-life switchgear fails, shutting down a campus? The obvious and responsible answer is, no.

Allocation of Funding and Accountability

Assuming the SUS receives the proposed \$800M in funding, how should it be allocated to the universities? It was originally thought the most appropriate, if not convenient, method would be to utilize the Sum-of-Digits formula for allocating funds to the universities. After all, it accounts for such factors as building size, age, etc., thereby considering a university’s total E&G space, average age of plant, etc. The allocation based on this approach is reflected in the chart below:

	Per Sum- of-Digits	Allocation of \$800M based on SOD %	University capital needs	% of Need funded
FAMU	6.3%	\$50,156,400	\$99,684,700	50%
FAU	4.9%	\$39,010,400	\$112,588,990	35%
FGCU	1.4%	\$11,042,200	\$5,695,700	194% **
FIU	8.4%	\$67,301,000	\$163,798,068	41%
FSU	16.7%	\$133,335,600	\$359,875,000	37%
NCF	0.5%	\$3,867,400	\$24,663,780	16%
UCF	8.8%	\$70,122,000	\$116,130,000	60%
UF	33.7%	\$269,284,600	\$591,385,875	46%
UNF	3.4%	\$27,565,200	\$22,575,000	122% **
USF	12.8%	\$102,281,400	\$121,723,777	84%
UWF	3.3%	\$26,033,800	\$60,601,280	43%
FPU	--	Xferd prorata to others	--	--
COE *	--	To FSU; COE fiscal agent	--	--
	100.0%	\$800,000,000	\$1,678,722,169	

* COE - FAMU-FSU College of Engineering; reflected separately in the SOD calculation

** Allocated funding exceeds Capital Needs.

However, the above approach results in varied levels of funding, from as low as 16% (of need) to highs that, in some cases, exceed stated need. As such, another scenario takes the above approach and distributes the excess funding above the stated need across the other universities, prorated based on their SOD percentages; see chart below.

	Revised Per Sum- of-Digits	Allocation of \$800M based on SOD %	University capital needs	% of Need funded
FAMU	6.4%	\$50,810,357	\$99,684,700	51%
FAU	4.9%	\$39,543,254	\$112,588,990	35%
FGCU	0.7%	\$5,695,700	\$5,695,700	100% **
FIU	8.5%	\$68,220,283	\$163,798,068	42%
FSU	16.9%	\$135,125,724	\$359,875,000	38%
NCF	0.5%	\$3,919,144	\$24,663,780	16%
UCF	8.9%	\$71,079,815	\$116,130,000	61%
UF	34.1%	\$272,962,831	\$591,385,875	46%
UNF	2.8%	\$22,575,000	\$22,575,000	100% **
USF	13.0%	\$103,678,489	\$121,723,777	85%
UWF	3.3%	\$26,389,403	\$60,601,280	44%
FPU	--	Xferd prorata to others	--	--
COE *	--	To FSU; COE fiscal agent	--	--
	100.0%	\$800,000,000	\$1,678,722,169	

* COE - FAMU-FSU College of Engineering; reflected separately in the SOD calculation.

** Allocated funding exceeds Capital Needs; FGCU excess = \$5,346,500, UNF excess = \$4,990,200. Funding capped at 100%, with combined excess funding of \$10,336,700 spread across the other universities based on SOD % prorata share.

Lastly, as another alternative, funding could be allocated based on each university’s prorated share, as per their stated need, of the aggregate total SUS need. This approach is reflected in the chart below, showing each university receives 48% of their stated need, as reflected below:

	<u>% of total SUS need</u>	<u>Allocation of \$800M based on Univ list</u>	<u>University capital needs</u>	<u>% of Need funded</u>
FAMU	5.94%	\$47,505,038	\$99,684,700	48%
FAU	6.71%	\$53,654,615	\$112,588,990	48%
FGCU	0.34%	\$2,714,303	\$5,695,700	48%
FIU	9.76%	\$78,058,452	\$163,798,068	48%
FSU	21.44%	\$171,499,492	\$359,875,000	48%
NCF	1.47%	\$11,753,597	\$24,663,780	48%
UCF	6.92%	\$55,342,094	\$116,130,000	48%
UF	35.23%	\$281,826,683	\$591,385,875	48%
UNF	1.34%	\$10,758,183	\$22,575,000	48%
USF	7.25%	\$58,007,825	\$121,723,777	48%
UWF	3.61%	\$28,879,719	\$60,601,280	48%
	<u>100.0%</u>	<u>\$800,000,000</u>	<u>\$1,678,722,169</u>	

While the above chart provides consistent funding (48%) to each institution, it is driven solely by the stated needs lists prepared by the respective university; it does not account for each institution’s facility inventory, size, age, etc., as is the case with Sum-of-Digits.

Of the three scenarios above, the second one (i.e. Sum-of-Digits, with distribution of excess funding across the other universities) seems to offer the most consistent and equitable allocation of funding to the universities.

In terms of accountability, upon receiving funding, each university can allocate resources to the projects they deem most critical and of greatest priority at that time. The projects should be chosen by the university, and monitored by the Board of Trustees, solely from those reflected on their respective revised lists, as of 12/5/21, with periodic (annual, semi-annual) progress reporting to the Board to ensure funding is allocated to stated needs and progress is being made in tackling issues.

How do we avoid falling back into this proverbial hole going forward?

Avoiding deferred maintenance and deferred capital replacement going forward is largely an issue of funding, but it may also require some internal mechanisms, such as enhanced reserve funding as well as the promise of improved PECO cash flow in the years ahead.

1) Reinststitute Sum-of-Digits (SOD) Funding

Section 1013.64, Florida Statutes, provides for an annual carve-out from PECO for “remodeling, renovation, maintenance, repairs and site improvements” (of E&G facilities space), further citing it “**shall be given priority consideration by the Legislature**”. In recent years, most, if not all, of SOD funds have been redirected to charter schools. The FY19-20 and FY20-21 appropriation to SUS was \$0, and, for FY21-22, the Board did not request SOD in light of limited PECO funding for capital projects. Reinststituting consistent annual SOD appropriations would be a first-step in providing the SUS with much needed resources for capital replacement and maintenance.

Potential future funding: \$45,439,749 / yr. (based on 5-yr avg. from FY15-FY19)

2) Reinststitute Plant Operations & Maintenance (PO&M) Funding

In FY92-93, the Board began requesting (university) PO&M funding under the current model and formula. Since then, over 1,500 buildings, ranging in size from 200,000 sf laboratories to 1-room buildings less than 100 sf, have been operated and maintained by the universities with annual PO&M appropriations.

The PO&M funding formula was designed (by the Board of Regents and university representatives) to estimate the approximate annual cost to maintain all new E&G facilities coming online for use. The formula considers a building’s gross square footage; per-square-foot costs for energy, operations, and maintenance based on historical averages unique to each university; energy usage by type of building; as well as inflationary factors calculated solely for new facilities. Once a building is funded for PO&M by the legislature, the university continues to receive the amount annually as a recurring component of its base for operations (primarily for utilities, janitorial services, etc.) and ongoing building maintenance, but the recurring amount is not adjusted for inflation going forward.

Between FY17 and FY20, the Board requested a total of \$26,461,630 in PO&M funding for new facilities (see chart below).

Year	PO&M Amount
2016-17	\$7,051,774
2017-18	\$3,558,602
2018-19	\$5,970,326
2019-20	\$9,880,928
Total:	\$26,461,630

These legislative budget requests were ultimately not funded (the Board did not request funding FY21 in light of circumstances), resulting in the universities absorbing the added annual operating and maintenance costs associated with the new facilities.

It is important to note that the PO&M funding formula and model came into existence largely in response to a deferred maintenance crisis within the SUS in the 1980s.

Potential future funding: \$26,461,630 / yr. (prior unfunded requests), **plus**
\$ TBD / yr. (based on new facilities coming online yearly)

3) Avoid “bonding” PECO

PECO funds come from revenue generated by the gross receipts tax; 2.5% on gross receipts from the sale/delivery/transportation of gas fuels (excluding LP gas), or electricity to a retail consumer in Florida, as well as 2.52% on sellers of communication services (i.e. “land lines”). The gross receipts tax is a relatively stable, although slow growing, tax source, projected to generate roughly \$1.1B-\$1.2B annually over the next 10 years, as reflected in the chart below (per Revenue Estimating Conference, 8/3/2021):

	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	FY 30-31
Maximum Available for Projects	279.4	333.6	243.7	386.5	465.8	549.0	680.4	727.6	772.4	814.8	852.2	886.2
Projects funded from bonds	-	-	-	-	-	-	-	-	-	-	-	-
Projects funded from cash	279.4	333.6	243.7	386.5	465.8	549.0	680.4	727.6	772.4	814.8	852.2	886.2
Summary of Bond Issues												
Bond Sale - current year authorization			-	-	-	-	-	-	-	-	-	-
Cost of Bond Issuance			-	-	-	-	-	-	-	-	-	-
Bond Proceeds (Net of Issuance Cost)	-	-	-	-	-	-	-	-	-	-	-	-
Bond Sale Proceeds - prior year authorization	-	-	-	-	-	-	-	-	-	-	-	-
Total Bonding Proceeds for Projects	-	-	-	-	-	-	-	-	-	-	-	-
Bond Interest Rate	4.25%	4.50%	3.25%	3.50%	3.50%	3.75%	4.00%	4.25%	4.25%	4.25%	4.25%	4.25%
Term of Bond Issue	30 years											
Transfers to Sinking Fund	826.1	826.3	821.9	782.8	694.7	627.7	515.3	488.9	463.6	438.0	415.7	396.8
Sources of Revenue												
Gross Receipts Tax	1,115.1	1,109.4	1,135.7	1,148.3	1,157.0	1,167.9	1,181.1	1,194.7	1,208.4	1,222.3	1,236.4	1,250.5
Interest Earnings	21.1	9.5	0.8	1.5	4.6	9.8	15.7	22.9	28.6	31.6	32.6	33.6

PECO brings in over \$1 billion in revenue annually, which could potentially fund capital projects for education (SUS, as well as K-12 and Colleges, per statute); that is, if it was not already leveraged. Debt service (principal and interest) is over \$822 million per year, or 75% of total receipts, thus the majority of revenues never make it to education. If we can avoid further “mortgaging” of PECO revenues, the diminishing

debt service over the next 10 years (as reflected in the chart above) would, in theory, free-up significant resources for future capital needs.

4) Consider increasing the (statutorily-required) 1% reserve on new projects, and establish governing parameters for the use and preservation of reserve balances.

Section 1001.706(12)(c)1, F.S. states the following:

(c) A new construction, remodeling, or renovation project that has not received an appropriation in a previous year shall not be considered for inclusion on the prioritized list required by s. 1013.64(4), unless:

1. A plan is provided to reserve funds in an escrow account, specific to the project, into which shall be deposited each year an amount of funds equal to 1 percent of the total value of the building for future maintenance;

The above reflects the entirety of the statutory requirement regarding the reserve. If desired, Board regulation could provide governing parameters for specific reserves requirements (i.e. greater than 1%), as well as eligible funding sources and uses, to help ensure that reserves are preserved for future capital replacement/renewal needs.

5) Consider revising the current PECO project scoring methodology to place greater emphasis on renovation/remodeling over new construction projects.

This is already accomplished, in part, with the current PECO scoring model, but further enhancement might be feasible. Importantly, renovation and remodeling projects typically address both deferred maintenance and deferred capital replacement. Regardless, increased Legislative commitment to PECO appropriations is required to make this strategy effective.

6) Process Enhancements:

- I. Definitions** - Formalize and further enhance the definitions for “deferred maintenance” and other relevant terms through their inclusion (and subsequent adoption) in new Board regulations. For example, they may be incorporated in proposed new regulation governing Educational Plant Surveys and (E&G) space needs determination methodology, pursuant to s. 1013.31(1)(c)4, F.S.
- II. Workshops** – Have workshop(s) with the universities, for the purpose of comparing ideas, discussing issues and developing ongoing best practices for the system.
- III. Ongoing Monitoring** – Each university should utilize an independent 3rd-party entity (e.g. Sightlines, ISES, etc.), when feasible, to provide annual analyses of current and/or projected needs.

- IV. Guidance to Boards of Trustees** – Develop a tutorial, comparable to the “Colors of Money” presentation (outlines fiscal responsibilities, regulations and budgetary funding) for Universities to use in their planning processes relating to deferred/projected capital needs. Ensure Boards of Trustees are monitoring the implementation of strategies and resources to reduce maintenance needs by having the university develop a facilities plan for ongoing maintenance.
- V. Reporting** - Based on the above, create an annual reporting template to ensure Boards of Trustees, the Board of Governors, and other stakeholders have a clear and consistent accounting both at the planning and the implementation stages of capital plans.