

**SENATE OF VIRGINIA**

# **Senate Finance Committee**

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## **Operating Costs of New Higher Education Facilities**

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**April Kees**

**Capital Outlay Subcommittee  
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# Costs Associated with the Operation and Maintenance (O&M) of Physical Plant

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- Janitorial/custodial services such as keeping the facility clean and safe.
- Minor building repairs to roofs, exterior walls, floors, foundations, heating/air conditioning equipment, plumbing and electrical wiring.
- Utilities including heat, light, power, water and gas.
- Property and liability insurance.
- Preventive maintenance.

# Calculation of the O&M Funding Need

- Appendix M -- funding guidelines prior to the current higher education funding guidelines,
  - based on the ratio of total square feet and positions in the physical plant program at an institution.
- Base Adequacy -- the current higher education funding guidelines,
  - based on student enrollment and is calculated as a percent of total funding excluding the program of institutional support—an administrative program .

# Budget Language Addressing O&M

## Chapter 847, General Provisions § 4-4.01.3.o7

“It is the policy of the Commonwealth that the institutions of higher education shall treat the maintenance of their facilities as a priority for the allocation of resources. No appropriations shall be transferred from the "Operation and Maintenance of Plant" subprogram except for closely and definitely related purposes, as approved by the Director, Department of Planning and Budget, or his designee. A report providing the rationale for each approved transfer shall be made to the Chairmen of the House Appropriations and Senate Finance Committees.”

# Base Adequacy and O&M Funding

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- The Base Adequacy funding guidelines address an institution's need for O&M funding based on the size of enrollment.
- According to the State Council of Higher Education for Virginia (SCHEV), once the system is fully funded under the guidelines- there will no longer be a need to address O&M as a separate budget issue.
- However, given the importance of the O&M program, the requirements in the General Provisions section of the Act, and the fact that the system is not currently fully funded under the guidelines-SCHEV supports a separate recommendation for the O&M costs associated with new space coming online.

# O&M Budget and Spending

- On average, O&M spending represents about 10 percent of total Educational and General spending at Virginia public institutions.
- This level of spending is comparable to the national average - typically varying by no more than 1 percentage point.
- SCHEV recommended total additional funding of an average \$30 million per year (all funds) for new space coming online in 2008-10. This represents a 1 percent increase over the current O&M spending.
  - The general fund recommendation was \$24.9 million for the biennium.
- The Governor did not provide separate funding for O&M in the introduced budget.
- There was \$44.3 million GF included in the introduced budget for base adequacy.
  - Thus, there is an estimated \$4.4 million GF going to O&M costs from this funding.

# Estimating O&M Costs for the GOB

- The General Obligation Bond (GOB) bill (SB 581) includes new construction with about 2.6 million square feet.
- If you use an average of \$17.50 per square foot:
  - Total new O&M costs would be about \$45.5 million.
  - About 60% of that total cost would come from the General Fund (\$27.3 million).
    - This depends on the fund split for each institution.
- The average of \$17.50 per square foot is a very rough estimate because the actual costs vary greatly by type of project.
  - A physical plant building might cost \$5 per square foot.
  - A research lab might cost \$30 per square foot.