August 2021 Controller's Office FAQ on Facility Project Funding Guidelines

Campus projects are generally limited in complexity and are initiated and completed within a 12 month window. Capital projects are large multi-year projects that may include such endeavors as new building construction or a major renovation of an existing campus building. In the context of this memo, both campus and capital projects are referred to as "facility projects".

The content of this memo is organized as a FAQ document. The purpose of this memo is to provide clarity to the campus community as to how project funding is administered.

1. **How are projects funded and when are funds on a project expended?**

Projects are funded by four primary sources of funding: State-Sponsored Capital; Foundation/Donor provided funds; Academic/Auxiliary Bonds; Departmental/Institutional cash funding.

2. **When must funding be available for a project to begin?**

Signed documentation of funding commitments in sufficient amount to cover the cost of the project phase being contemplated must be submitted to Facilities Management (FM) and the Controller's Office. Prior to initiating each phase of the project, all funding commitments must be in place in the plant account that will record the usage of these funds.

3. **What if costs exceed funding commitments?**

Facilities Management cannot proceed with the project for which cost estimates or direct charges exceed funding commitments in the initial MOU without written approval of the sponsor documented on a new MOU and the sponsor's commitment to cover additional costs

4. **How are funding sources identified and what documentation is used to substantiate the funding commitments?**

Funding sources are identified on the Request for Project Plant Account (PPA) form. The funding source is identified by a plant reserve KFS account. Prior to establishing any budget for the project, the Controller's office will verify that funding in the Plant Reserve account is available. Prior to beginning each phase of the project, an attestation of full funding must be submitted to the Controller's office

5. **What happens if the plant reserve account does not receive sufficient funding to cover the PPA commitment?**

If the plant reserve account does not receive sufficient funding the Controller's office will review the fund balance of the funding Department to determine if sufficient funding exists.

If so, the Department must sign a promissory MOU committing to transferring the funds within 7 days of the Controller's Office notice to establish/adjust the budget.

Similarly, if spending exceeds the funding received in the plant reserve account, even if the reserve was fully funded based on the project budget the Controller's Office will require that the Department provide additional funding and/or funding commitments prior to authorizing any additional project spending.

6. **What happens if the Department does not have sufficient funding to fund the commitment?**

If not, the project must halt all expenditure. The Controller's office will alert the BAC of the issue, who will require the Dean or Vice President of the division to present a remediation plan. Only once BAC has approved the plan will the project be allowed to continue.

7. **Who is responsible for unrealized donor funds, and how is this documented?**

The University recognizes that there are different risks associated with fundraised sources of capital. As such, measures are required to account for the potential shortfall in project funding, depending on the security related to each source.

a) **Received donations:** regardless if the donations are received by a related foundation, the university, or the Division, all donations "in hand" are treated as fully-funded and project budgets may be established for their use.

b) **Pledged donations**: pledged donations are likely - but not guaranteed – to be received and therefore the sponsoring Department will be required to provide documentation of the pledge as well as sign a MOU expressly stating that it will fund any shortfall in pledges with a description of the funding source and how it has been encumbered in the system of record.

   The Controller's Office will not pursue any solvency check of the Department or division if a pledged donation is in place. However, the planned timeline of the pledge receipts must be included in the PPA and MOU to alert the University to the windows of potential risk. Only with this documentation in hand will a budget be established for pledged use in campus plant accounts.

c) **Planned fundraising:** Planned fundraising which has not been realized is the full responsibility of the sponsoring unit. As stated above, if it cannot be collateralized by Divisional cash holdings, this source is NOT permitted in a PPA.

8. **How does the University bridge gift/donor funds when there is a timing difference between receipts of funds and project spend?**

The nature of donations varies from one-time cash and staggered payments to endowed bequests that generate perpetual income streams. In the event that a donation is not available to fund a project prior to the requirement for funding, the first responsible party to do so is the Division sponsoring the project.

While BAC may approve a Self-Funded Loan to the Department to fund the shortfall, this option is of extremely limited availability and will be considered only after all Division funding sources (including the limitation of current year spending to generate cash) has been demonstrably exhausted.

9. **How does the University resolve project deficits at the end of a project life cycle?**

All project deficits, regardless if they have resulted due to FM/project over-spend or donation shortfalls, are the responsibility of the Division that sponsored the project.

Upon initiation of a project the sponsoring Department must sign a MOU recognizing that the sponsoring unit is ultimately responsible for making the university whole for project deficits.

The Controller’s Office will report such deficits to BAC. Potential outcomes of deficits are budget reductions, cash sweeps, and BAC approved internal loans, which will adopt interest rates +1.5% above current effective borrowing rate for the University System of Maryland. The term for repayment will solely be decided by BAC.