UNIVERSITY OF ILLINOIS SYSTEM

OFFICE OF CAPITAL, UTILITIES, AND REAL ESTATE

Auxiliary Facilities System Repair and Replacement Reserves

General Provisions and Operating Procedures

Policy Information

Policy Sponsor: System Office of Capital, Utilities, and Real Estate
Approved by: Senior Assistant Vice President, Capital, Utilities, and Real Estate
Date Approved: 12/01/2025
Effective Date: 01/01/2026
Date Amended (most recent): 12/01/2025
Targeted Review Date: 07/01/2026
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Purpose

The objective of this policy is to ensure the financial sustainability and operational integrity of the University's Auxiliary Facilities System by establishing and maintaining a Repair and Replacement Reserve Fund. This reserve is intended to fund nonrecurring major repairs, replacements, and renovations of system facilities and fixed equipment that fall outside of routine maintenance, in compliance with bond indenture requirements and legislative guidelines. Through structured assessments, prudent financial oversight, and a formalized project approval process, the policy aims to preserve facility functionality, protect institutional assets, and support long-term capital planning.

Scope

This policy is applicable to auxiliary units across the University of Illinois System.

Statement of Policy

In accordance with the various Auxiliary Facilities System (System) bond indentures, the University maintains the Repair and Replacement (R&R) Pooled Reserve Fund (Pool) established for the System. Funds accumulated in the Pool are required to maintain the System facilities and may be used to pay the cost of unusual or extraordinary maintenance or repairs, renewals and

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replacements, and renovating or replacement of fixed equipment not paid as part of the ordinary facilities maintenance and operation of the system. The following definitions apply in regard to the administration of the Pool and the related Pool projects.

Definitions

Facilities Maintenance, as defined below represents those costs which are to be treated as regular operating expenses of each unit and, therefore, should be a component of each unit's annual operating budget. Facilities maintenance expenses may be expended from unit operating funds or unit reserves established for such purposes in compliance with the *Legislative Audit Commission University Guidelines* definitions for locally held funds.

"Facilities Maintenance" includes all charges of any dollar amount incurred in providing normal recurring maintenance and repair to buildings, fixed equipment therein, and facilities. This includes all interior painting; floor covering repair and refinishing; maintenance and routine repair of heating, air-conditioning, ventilating, plumbing, electrical equipment and fixtures; and maintenance and repair of such items as fire hoses, lock systems, bulletin boards, directories, swimming pools, tennis courts, parking lots, sidewalks, etc.

"Facilities Maintenance" will also include total expenditures of less than $25,000 for nonrecurring (that which normally occurs not more than once every five years), repairs and replacement to existing structures, building components and fixed equipment therein, specifically to include elevators, utility distribution systems within buildings, building mechanical systems, and other building components.

"Facilities Maintenance" also includes all maintenance and repair of fixed equipment such as ovens, dishwashers, fixed seating, etc. Replacement of such fixed equipment, or major improvement thereof, under $25,000 is also included in this category.

"Repair and Replacement (R&R)," as defined below, represents those costs which may be funded from the R&R Fund Reserve of the System.

"Repair and Replacement" includes all charges totaling $25,000 or more[1] for nonrecurring (that which normally occurs not more often than once every five years) major repairs to buildings, exterior painting, replacement of fixed equipment or major component thereof, major repair, replacement of entire components of the building mechanical systems (heating, ventilating, plumbing,

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electrical, air-conditioning), building utility distribution systems, elevators, roofs, exterior skin, and such items as signal and communication systems, doors, lock systems, venetian blinds, draperies, and fixed floor and wall covering (i.e., carpeting, wall repapering, vinyl wall covering, etc.). Catastrophic losses to buildings and fixed equipment therein not covered by insurance would also be included. In addition to the above, it also includes major repair to and resurfacing of parking lots, sidewalks, tennis courts, swimming pools, etc.

"Repair and Replacement" also includes replacement of fixed equipment (including fixed food service equipment, x-ray equipment and fixed seating) costing $25,000 or more[1]. Consideration may be given to special items costing less than $25,000.

"Repair and Replacement" also includes preliminary planning funds for Architect & Engineering (A&E) fees, feasibility studies, consultants and/or cost estimates leading to the development of a project budget for R&R requests. Funds provided for these purposes should be allocated under circumstances where an approximation of the total commitment expected from R&R funds for these projects is identified. These costs will later be identified as part of the total project cost if the request is approved, and should not exceed the generally accepted range of costs for "planning purposes" as expressed as a percent of the total budget. The University Office of Capital Programs and Real Estate Services (UOCP&RES) should be involved in discussions leading to the employment of professional firms for work on any planning segment.

"Movable Equipment Repair and Replacement" costs will be funded from operating funds of the unit and are the responsibility of the unit manager. Reserves established for such purposes must conform to the *Legislative Audit Commission University Guidelines* and Definitions on Locally Held Funds.[2]

Procedures

SYSTEM RESERVE FUNDING REQUIREMENTS:

The required minimum annual contribution to the Pool is 10% of the maximum annual net debt service payable in any future fiscal year. The annual assessment to the System units is calculated as ½ of 1% of the current replacement value of the unit's buildings and improvements. The maximum amount that may be accumulated in the Pool shall not exceed 5% of the replacement cost of existing facilities. The replacement values of the facilities are updated annually using the Engineering News Record Building Cost Index. These replacement values are based on the

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requirements of the System bond indentures and should only be used to calculate the necessary unit assessments to comply with the reserve funding requirements and for the margin of compliance calculations required by the Legislative Audit Commission *University Guidelines.*

Investment income is earned on the cash balances in the Pool and the cash balances in the projects funded by the Pool. All investment income earned on these balances will be recorded to the Pool. The investment income is distributed to the units based upon their prior fiscal year positive cash balance in the Pool.

The Pool fund balance will be reviewed annually by University Accounting and Financial Reporting (UAFR) to confirm that the balance does not exceed 5% of the replacement cost of the facilities and that the total annual contribution to the Pool is at least 10% of the maximum annual net debt service. Should either of these calculations be out of compliance with the requirements of the bond indenture detailed above, the assessment % should be altered (either in total or for specific facilities) within the boundaries of the bond resolutions. (See Attachment A for illustrations of these calculations).

ANNUAL BUDGET PROCESS:

After the closing of the fiscal year, UAFR will prepare schedules which detail the additions to System facilities and improvements, calculate the replacement values of the System facilities, and calculate the unit R&R assessments, based on the formula above.

The contribution requirement, by individual unit, will be distributed to each campus's auxiliary administration by UAFR for budget planning purposes for the next fiscal year. For example, the replacement values and resulting contribution requirements as of June 30, 2022 will be used for FY 2024 budget planning purposes.

UNIT ASSESSMENT PROCESS:

The budgeted contribution requirement for each unit will be assessed by UAFR in two equal installments in the months of November and May each fiscal year. This transaction represents a transfer from the operating funds of the auxiliary units to the Pool.

RESERVE FUND REPORTING:

Quarterly reports detailing Pool funded project activity as of September 30th, December 31st, March 31st and June 30th will be submitted by each campus's facilities construction unit to System Office of Capital, Utilities, and Real Estate (System Capital Programs). The first quarter is due

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October 15th, second quarter, January 15th, third quarter, April 15th and the fourth quarter is due 5 business days after the close of period 14 in Banner. System Capital Programs will compile the project activity data into a University-wide System R&R report which will also include contingency funding and emergency project funding. After review, System Capital Programs will distribute the verified reports to all parties by the 20th of each reporting month for the first three quarters and 10 business days after the close of period 14 in Banner for the fourth quarter. Projects ending in a given fiscal year will be closely monitored by ystem Capital Programs and reminders sent to Campus Construction Unit Financial Managers (CCU FMs) to request any necessary time extensions prior to the end of the project timeline. Contingency funds are monitored by ystem Capital Programs and any requests to use contingency funds must be approved by System Capital Programs.

Separate from the reports noted above, internal record keeping will be maintained by UAFR for the costs of all projects funded from the System reserve fund. These costs will be included in a report prepared by UAFR that reconciles the Pool activity by campus, and within campus, by unit. The report details historical information about the contributions made by each unit to the Pool and funds allocated to each unit from the Pool to determine each unit's portion of the Pool. This report is distributed to each campus's auxiliary administration, to System Capital Programs, and to the Vice President/CFO after the end of each fiscal year to provide the information necessary to make decisions about future project funding.

ANNUAL PROJECT APPROVAL AND FUNDING PROCESS:

Requests for the utilization of Pool funds will be developed by each unit manager for their facilities during the normal operating budget preparation cycle. Each project request should include a description of the project, purpose of the project, a detailed budget, and the proposed project start and completion dates.

Project requests are submitted to campus administration for review and prioritization into a single campus list which is subsequently submitted to System Capital Programs. ystem Capital Programs will review the requests for appropriateness, as defined above, and to ensure that the unit's share of the Pool is adequate to fund the project. System Capital Programs will recommend a prioritized list of projects to the Vice President/CFO for approval. The recommendation should include project budgets and

contingency funding equal to 5% of the total annual approved projects. The annual program of approved projects will be reported to the Board of Trustees.

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Once the projects have been approved for funding from the Pool, each campus's facilities construction unit will send requests to UAFR to establish Banner project funds. UAFR will transfer funds from the Pool to the project funds equal to the approved project budget amounts. The amount of the project will reduce the available amount for the unit within the Pool.

Campus facilities construction units will be responsible for reviewing the expenses recorded in the project fund, overseeing the completion of the project, approval of requisitions, etc. in compliance with normal University procedures. When the project is complete, campus facilities construction units will contact UAFR to close the Banner project fund and transfer any remaining project funds back to the Pool.

ystem Capital Programs will send a request to UAFR to establish the contingency fund in Banner. Once established, UAFR will transfer the contingency funding associated with the approved projects from the Pool to the contingency fund. Project costs for projects or portions of projects funded by the Pool that exceed the original estimate require prior funding approval by the appropriate campus offices and System Capital Programs. If approved, these costs will be funded by the contingency and UAFR will process the transfer of these additional funds from the contingency fund to the project fund. Any balance remaining in the contingency fund when the associated fiscal years' approved projects are completed will be transferred back to the Pool.

All obligations with external vendors shall be in accordance with the Illinois Procurement Code Public Act 90-572. Unexpended funds will be transferred back to the Pool upon completion of the project.

EMERGENCY PROJECT APPROVAL AND FUNDING PROCESS:

Emergency Repair and Replacement projects (defined as those which meet the repair and replacement definition outlined earlier in this document but for which the need is not evident when R&R project requests are normally submitted and which must be tended to immediately in order to protect life or property or to avoid further serious deterioration or similar economic loss) should be administered as follows:

a) The repair or replacement funding request should be initiated by the operating unit as dictated by the emergency.
b) The request for funding from the Pool will be in the same format as required for all other R&R requests. A timely review of the request will be arranged by ystem Capital Programs. The review process will be the same as for other R&R projects.
c) If the request is approved, the campus facilities construction unit will send a request to establish a new R&R fund to UAFR. UAFR will transfer the funds from

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the Pool to the project fund equal to the approved project budget amount. Costs related to this project accumulated in other Banner funds will subsequently be transferred to the R&R project fund by CCU FMs. If the request is not approved, the operating unit will absorb the cost.

d) CCU will maintain the same oversight for emergency projects as for any other approved R&R project.

DURATION OF THE PROJECTS:

The R&R projects may begin once the prioritized list of projects for the respective fiscal year have been approved by the Vice President/CFO.

R&R projects have a three year period for completion commencing July 1st of the respective fiscal year for which the project was approved. Completion is defined as construction work has been completed and the project encumbrances are liquidated or closed. Any request for extension beyond this period must be submitted in writing for approval by ystem Capital Programs.

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Attachment A

R&R Pool Requirements:

The Maximum Annual Debt Service (MADS) for the Auxiliary Facilities System at June 30, 2024 was $89,986,150.

The Minimum Annual Pool Contribution is 10% of the MADS. Using the maximum annual debt service calculated above $89,986,150 x 10% = $8,998,615 (the minimum annual contribution requirement for FY24). The actual unit contributions for FY24 were $23,109,770 and investment income earned on Pool funds of $1,606,430 totaling $24,716,200 in contributions. This exceeds the 10% minimum annual contribution requirement.

The Maximum Pool Fund Balance is calculated as 5% of the replacement cost of the System facilities. For example, the FY24 replacement cost for the System facilities was calculated as $4,853,341,484. $4,853,341,484 x 5% = $242,667,074 (the maximum amount which may be accumulated in the System Pool). The Pool fund balance and the Pool funded projects at 06/30/24 were $85,673,854. This is less than the maximum reserve balance limit of 5%.

Moveable Equipment R&R Reserve (Dept Funds):

The Maximum Equipment Reserve Balance is 20% of the book value of the moveable equipment of the System. At June 30, 2024, the book value of the equipment was $46,730,256. The June 30, 2024 maximum reserve balance is $9,346,051 ($46,730,256 x 20%). The equipment reserve balance at June 30, 2024 was $7,664,690 (in Banner funds 1-761074, 1-761079, 1-761081, 1-762350, 1-763144, 2-761420, 2-761469, 4-761021). This is less than the maximum reserve balance limit of 20%.

Forms, Tools and Additional Resources

https://www.uocpres.uillinois.edu/policies

Website Address for this Policy

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