Funding for Fixed Capital Outlay Projects, a Summary

Revised January 3, 2025

How are FCO projects funded?

The Legislature appropriates funding to construct, maintain, repair, renovate, and remodel fixed capital outlay (FCO) educational facilities. To a lesser extent, non-appropriated funds are used as well.

Public Education Capital Outlay (PECO) funds account for most of the state funding for the construction and ongoing maintenance of postsecondary educational facilities. The State University System (SUS) and Florida College System (FCS) institutions also charge student Capital Improvement Fees in addition to tuition to help finance certain student-related facilities, such as student unions and recreational facilities.

SUS institutions may also finance FCO projects with funds not subject to legislative appropriation. Projects financed with non-appropriated funds typically include housing, parking, dining, research, retail, and athletic facilities. Said non-appropriated funding represents resources from direct support organizations (DSO's), such as foundations, as well as proceeds from the issuance of bonds/debt. These projects must be legislatively authorized, but are not subject to the statutorily-driven Legislative Budget Request (LBR) development policy guidelines.

In addition to the above, various other sources are often used to supplement FCO project financing. These sources may include grants, private gifts/donations, auxiliaries, and operating budget carryforward funds. Depending on the source, there may be statutory and/or practical limitations on funding amounts and/or project types.

University boards of trustees may use one or more sources to fund a single FCO project, but the use of a particular funding source may depend on the authority granted to the board of trustees.

Public Education Capital Outlay (PECO)

Florida's PECO program was established in 1963 via amendment to the Florida Constitution, the intent being to provide a fund source for the construction and long-term maintenance of educational facilities for the SUS and FCS; now totaling 12 and 28 institutions, respectively. Funding for PECO comes from the State of Florida gross receipts tax (GRT), specifically the sale of electricity, gas, and communications services (cable service, cell phones).

In 1974, K-12 was added as a PECO recipient, and, more recently, Charter schools became recipients as well, together totaling approximately 3,504 and 726 schools, respectively. This has significantly diluted PECO funding for postsecondary institutions. The Office of Economic and Demographic Research (EDR) periodically estimates the amount of PECO funds available for appropriation, and the Department of Education (DOE) then apportions funding to SUS, FCS, K-12, and Charters.

In some years, State general revenue has been appropriated to supplement PECO funds for university FCO projects.

PECO is intended to fund Education & General (E&G) facilities, with are facilities built/acquired primarily for a university's educational instructional program and related institutional support. It also serves as the main source of funding for deferred capital replacement and renewal, which is essential for these facilities' long-term functionality and physical condition.

“PECO Major” (construction, renovation, & remodel)

As the primary source for FCO projects (i.e., construction, remodeling, renovation, and infrastructure), PECO funds are appropriated to the SUS pursuant to s. 1013.64(4), F.S., which provides that a prioritized list of projects must be submitted to the Legislature annually. The list includes those E&G-related FCO projects selected via a points-based prioritization method pursuant to s. 1001.706(12), F.S.

Typically, projects in this category are $5M - $150M in size. For those on the upper end of the scale, it can take multiple years of appropriated funding to fully finance a project.

“PECO Minor” aka “Sum of Digits” (maintenance)

In addition to the above, a smaller appropriation is provided for remodeling, renovation, maintenance, repair, and site improvements for existing educational facilities, pursuant to s. 1013.64(1)(a), F.S. This appropriation is often referred to as “Sum of Digits” based on its Statutorily-prescribed calculation. It is appropriated as a lump sum to the SUS, and the Board subsequently apportions it to the universities.

Historically, the SUS received roughly $45M - $60M annually. The last appropriation (approximately $47M) was in the FY2018-19; the year the Legislature authorized the use of Carryforward funds (see below) for these purposes.

Capital Improvement Trust Fund (CITF)

Another funding source for FCO projects is Capital Improvement Fees (aka: “CITF”). University students pay Capital Improvement Fees of $6.76[i] per credit hour per semester, pursuant to s. 1009.24(8)(a) F.S. This revenue source is used to finance SUS student-related FCO projects after required carve-outs for the payment of 1) debt service on bonds issued by the SUS for related projects and 2) Educational Research Centers for Child Development[ii]. The remaining funds are estimated annually and included in the FCO LBR. Once funding is appropriated by the Legislature, it is then allocated pro-rata to the universities to finance student-related facilities, such as student unions, outdoor recreation facilities, and wellness centers.

Typically, CITF-funded projects range in size from $300k - $30M, and sometimes more. Over the past 5 years, aggregate gross CITF fee receipts have ranged from $56M - $59M annually. After carve-outs for bond debt service and Educational Research Centers for Child Development (childcare centers), the average is $45M.

Private Gifts/Donations and Grants

Section 1013.74, F.S. authorizes universities to accomplish FCO projects from grants and private donations/gifts. There are few restrictions on private gifts/donations outside of the wishes of the donor. However, grant funding must be used in accordance with the terms of the grant/contract, and such funding must be deposited into the university’s permanent sponsored research development fund (SRDF). Section 1004.22, F.S. authorizes the construction, renovation, and remodeling of buildings for such research, provided funding is derived entirely from the SRDF or in combination with other non-State resources.

Bonds/Debt

Authority is provided within Florida Statutes to finance facilities that support auxiliary enterprises and research via the issuance of bonds/debt (s. 1013.74) or public-private partnerships (s. 1013.171), both of which are governed by s. 1010.62. Further guidance is provided via the State University System’s *Debt Management Guidelines* and *Public Private Partnership Guidelines*. Projects such as housing, transportation, health care, research-related activities, and food service, are Legislatively preauthorized, but others, such as athletics and hotel/conference centers, require Legislative authorization (“back of bill”) before proceeding. Such legislative authorization does not preempt subsequent requisite authorization by the Board of Governors. Generally speaking, the amount of debt is based on the financial/repayment capacity of the supported auxiliary/enterprise.

Auxiliary Reserves

Unrestricted auxiliary reserves may be used to fund FCO projects, but this source of funding is more often a supplemental source to other larger/primary sources, such as PECO. Importantly, many auxiliaries have debt that is rated by one or all of the rating agencies (S&P, Moody's, Fitch), and a key metric undergirding those ratings is cash reserves. As such, Universities must be mindful in pulling reserves from auxiliaries, and the use of auxiliary resources is governed by Board Regulation 9.013.

Operating Budget (E&G) Funds

Appropriations for a university's E&G operating budget are restricted; they cannot be used for FCO construction and renewal. However, operating budget funds that are unused and carried forward to the next fiscal year may be utilized for these purposes (see below).

Operating Budget (E&G) Carryforward Balances

Pursuant to s. 1011.45 F.S., unexpended amounts in a university's operating budget carried forward to the next year, and in excess of the required 7% reserve, may be used to fund FCO projects, with limitations. Generally speaking, carryforward funds may be used for: 1) completion of a PECO-funded project that has received prior appropriation and requires added funding to complete, 2) renovation, repair, or maintenance consistent with s. 1013.64(1) F.S., 3) remodeling or infrastructure projects that are recommended in an Educational Plant Survey per s. 1013.31 F.S., or 4) completion of a repair/replacement project necessary due to damage from a natural disaster.

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[i] Except for FSU which charges $4.76 and NCF which charges $6.14 per credit hour

[ii] Pursuant to s. 1011.48, F.S., universities may establish an educational research center for child development to provide childcare services for students, faculty, and staff. It further requires that a portion of CITF fees equal to 22.5 cents per student credit hour per semester, be used to fund the establishment and operation of the center.