

Capital Projects Process

BACKGROUND

By Oregon statute and its bylaws, the Board of Trustees is responsible for ensuring the university's fiscal integrity and overseeing its financial resources and other assets. While the operation of the university has been delegated to the President, the Board retains its authority over the sale or acquisition of real property over \$5 million and the issuance of bonds. The Finance & Administration Committee assists in the oversight of capital projects by reviewing and recommending to the Board biennial capital funding requests to the HECC, budgets for capital projects in excess of \$5 million and any related plans for debt issuance, and long-range capital forecasts.

At the April board and committee meetings, Vice President for Finance and Administration Mike Green shared information about a recent external review of the university's capital project process. Green reported on a number of improvements underway related to staffing levels, use of standard construction contracts, and risk management. Another area flagged for improvement was the timing and process by which the university brings capital projects for Board approval.

To date, the process for bringing capital projects to the Board has been largely driven by the annual or biennial calendar of work before the Board (e.g., biennial capital funding requests, annual capital plans, and the Ten-Year Business Forecast), not based on the readiness of an individual project for consideration. As a result, individual capital projects have been brought forward for approval at different stages of development and with varying degrees of certainty with regard to budget, scope, program and design. Following a process dictated by the calendar rather than by project readiness has resulted in some projects coming back to the Board for additional budget approvals, as the scope, program, and design are further developed and refined.

MOVING TO A NEW PROCESS

Capital projects undergo several phases; from conceptual development to initial scoping of the program for the facility and designing of the structure, to constructing it on a determined budget and timeline.

The terminology used for describing the phases of a capital project life cycle varies but the life cycle generally includes the following:

- Pre-planning and project development (e.g., initial project goals and deliverables; includes high level budget estimate and funding plan)
- Programming (e.g., scope sufficient that a design can be prepared; includes preliminary schedule and budget)
- Schematic design (e.g., concept and basic framework for the design of the project; includes total project budget)
- Design development (e.g., plan to incorporate the program in a building form on the site)
- Construction (e.g., construction documents, bidding/contracting, and construction; quality assurance; construction management; substantial completion)
- Close out (e.g., construction completion and final documentation)

To aid the Board's discussion of a new process for considering capital projects, staff reviewed the process used at other universities. While there is variability, there are some consistent practices across institutions including the following:

- 1) Boards approve capital projects on a project-by-project basis, rather than *en bloc*.
- 2) Individual projects have "stage gates" for approval at specific points in the project life cycle.
- 3) There are thresholds for material changes in scope and budget that require additional board approval.
- 4) There is reporting to the board to enable monitoring of projects through close out.

KEY QUESTIONS

At the May 31 meeting, staff will be presenting a capital projects approval process based on this review of practices at other institutions. In reviewing the proposed process, the Board will want to consider the following questions:

- What stages of the project life cycle are most appropriately used as "stage gates" in the approval process? Are there "stage gates" or phases that might be delegated to a committee for efficiency and timeliness of review?
- Once approval is given by the Board, what levels of change in scope and budget would require subsequent approval by or notice to the Board?
- How can the state funding request cycle and the issuance of OSU revenue bonds be reconciled with a project by project approach, especially when the state request is often years in advance of project programming and design?
- How should fundraising goals for a project be reconciled with a life cycle approach to considering projects?

NEXT STEPS

Based on Committee input and discussion, staff will develop a draft policy setting out the process and standards for the Board's consideration of capital projects and related amendments to the delegation of authority for consideration at the October 2018 meeting.