

FY2017 Capital Plan Amendment

BACKGROUND

The 2015-17 Capital Plan that was approved by the Board of Trustees in May 2015 totaled \$257,985,000. During the June 2016 Board meeting, the Board approved the addition of \$8.0M in gifts for the Oregon Forest Science Complex (FSC) and \$5.0M in gifts and \$5.0M in OSU funds for the Complex for Resilient Infrastructure & Safety (CRIS). The 2015-17 Capital Plan is proposed for further amendment to include the expansion of the Small Animal Veterinary Teaching Hospital and renovation of part of Magruder Hall, a \$10.0M capital project, as outlined in the Justification section below. The progression of approved and proposed changes to the 2015-17 capital project totals is reflected in the table below.

2015-17 Capital Plan/ Amendment	Board Approval Date	Total	State-Paid Bonds	Gifts	OSU Funds	OSU-Paid Revenue Bonds
2017-17 Plan	May 2015	\$257,985,000	\$79,000,000	\$108,625,000	\$18,360,000	\$52,000,000
Amendment: Add FSC & CRIS	June 2016	18,000,000	0	13,000,000	5,000,000	0
		275,985,000	79,000,000	121,625,000	23,360,000	52,000,000
Amendment: Add Small Animal Vet. Teaching Hospital & Magruder Hall Project	October 2016	10,000,000	0	5,000,000	5,000,000	0
		\$285,985,000	\$79,000,000	\$126,625,000	\$28,360,000	\$52,000,000

AMENDMENT

Justification

Since the Small Animal Veterinary Teaching Hospital opened 10 years ago, the caseload has increased annually at a rate higher than initially predicted, growing by 15% per year over the last four years. The increased caseload provides excellent experiential learning opportunities for veterinary students, provides specialized services for pet and livestock owners in Oregon, and generates additional revenue to fund the program. With this rapid increase in caseload, the Veterinary Teaching Hospital, completed in 2005, quickly outgrew its space. The lack of available teaching hospital space is creating bottlenecks in service, requiring the hospital to turn away potential clients, and inhibiting the addition of needed specialty services, such as radiation oncology. The hospital currently has 45 to 70 people working in a hospital area of less than 6,000 square feet. This number does not include owners, dogs (average of 32 visits per day), cats (average of 5 visits per day), and hospitalized animals who also use the facility.

This project was originally in the 2017-19 HECC request; however, given the joint priorities identified by the seven universities, HECC is not planning to include this project in the list it will submit to the Governor. Since it is unlikely that state revenue would be available for this project, as originally proposed, the scope has been reduced and alternative revenue identified. The project supports an expansion of the Veterinary Teaching Hospital and remodeling some instructional spaces in Magruder. Preliminary design confirms that the instructional needs can be met within the existing footprint of Magruder Hall. The expanded instructional space would support an annual class size of 72, providing an additional 16 students per year the opportunity to study at OSU. The addition of approximately 6,600 square feet for the hospital would enable increased revenue, services, and educational experiences for students. This includes expanded space for additional exam rooms, kennels, and wards, along with space to move cardiology and oncology out of the current space and into a new wing. The new oncology space will have room to house a linear accelerator, which is necessary equipment for providing radiation therapy for cancer patients. This service is not reliably available anywhere on the west coast between Seattle and Davis, California. The total project cost for the expansion is \$10.0M.

Key components of the project

- Small Animal Veterinary Teaching Hospital – (a) new clinic space and (b) new oncology unit
- Magruder Instructional Space Renovation – (a) new large lecture hall, (b) junior surgery lab/suite and (c) administrative/office space to support additional faculty and staff

Key goals of the project

- This project will directly improve the educational experience of veterinary students by providing improved instructional space, including laboratories for learning subjects such as anatomy and surgery skills. In the professional program, the entire fourth year and part of the third year is committed to experiential learning in the Veterinary Teaching Hospital where students learn and practice skills, including medical and surgical skills and client communication skills. The increased space provided in the Veterinary Teaching Hospital would expand the numbers and types of cases that students would participate in, providing better training for the practice of their profession. With this project, graduating veterinarians would have also received training in and exposure to new and advanced treatment modalities, such as radiation oncology.
- Additional space in the Veterinary Teaching Hospital will allow faculty, house officers and graduate students the opportunity to expand research in the form of clinical trials and other types of clinical studies, in addition to providing clinical research opportunities for veterinary students. The project will generate income that will allow the College to hire six to eight new faculty, who would represent specialty areas currently lacking in the program. Increasing the Veterinary Teaching Hospital's space will allow for expansion of several services that are currently space-limited. For example, the oncology program could increase available services, such as radiation oncology for cancer cases and clinical trials for testing the efficacy of new cancer treatments.

Funding Strategy

Project	Total	State-paid Bonds	Gifts	OSU Funds	OSU-paid Revenue Bonds
Hospital Expansion/Magruder	\$10,000,000	\$0	\$5,000,000	\$5,000,000	\$0

The \$10.0M project will be funded using \$5.0M in gifts and other funds the College has set aside in a building fund and by borrowing \$5.0M from the University's internal bank. New revenues with increased enrollment will be sufficient to retire the debt in seven years (Attachment 1), however the College expects new gifts will retire the debt earlier than seven years.

RECOMMENDATION

Staff proposes that the Finance & Administration Committee recommend to the Board that it approve the FY2017 Capital Plan Amendment adding the Small Animal Veterinary Teaching Hospital Expansion and Magruder Hall Renovation to the 2015-17 Capital Plan.

Attachment 1

OSU-Magruder Hall Teaching Hospital and Class Expansion													
ASSUMPTIONS													
	Amount	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
Additional students (Years 1-3 of study)		16	32	48	48	48	48	48	48	48	48	48	48
Additional students (Year 4 of study)					16	16	16	16	16	16	16	16	16
REVENUE PROJECTIONS													
	FY 17 Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
Incremental Revenues	Base graduate tuition (3 terms)	\$21,789	\$380,951	\$784,759	\$1,212,452	\$1,248,826	\$1,286,291	\$1,324,879	\$1,364,626	\$1,405,565	\$1,447,731	\$1,491,163	\$1,535,898
	Additional Vet Med tuition (3 terms) yrs 1-3	\$21,228	\$371,143	\$764,554	\$1,181,235	\$1,216,672	\$1,253,173	\$1,290,768	\$1,329,491	\$1,369,376	\$1,410,457	\$1,452,771	\$1,496,354
	Additional Vet Med tuition (4 terms) yrs 4	\$21,367	\$0	\$0	\$0	\$408,213	\$420,459	\$433,073	\$446,065	\$459,447	\$473,231	\$487,428	\$502,051
	Caribbean students fourth year (8 per year)		\$377,262	\$388,580	\$388,580	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Hospital Revenue Growth due to expansion	\$7,245,000	\$561,777	\$756,227	\$966,833	\$1,200,982	\$1,374,734	\$1,486,775	\$1,607,947	\$1,738,995	\$1,880,723	\$2,034,002	\$2,199,773
	Other Revenues (Startup funds)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL REVENUES			\$1,691,133	\$2,694,119	\$3,749,101	\$4,074,693	\$4,334,657	\$4,535,496	\$4,748,129	\$4,973,383	\$5,212,142	\$5,465,364	\$5,734,076
EXPENSE PROJECTIONS													
Education Expenses	Debt Service (7 yrs @ 3.5%)		(\$811,556)	(\$811,556)	(\$811,556)	(\$811,556)	(\$811,556)	(\$811,556)	(\$811,556)	\$0	\$0	\$0	\$0
	O&M on 9,000 gsf incremental space		(\$110,250)	(\$113,558)	(\$116,964)	(\$120,473)	(\$124,087)	(\$127,810)	(\$131,644)	(\$135,594)	(\$139,661)	(\$143,851)	(\$148,167)
	Faculty salary and OPE at \$160K per FTE	\$180,000	(\$393,382)	(\$810,366)	(\$1,252,016)	(\$1,719,435)	(\$1,771,018)	(\$1,824,149)	(\$1,878,873)	(\$1,935,240)	(\$1,993,297)	(\$2,053,096)	(\$2,114,689)
	Faculty startup (100,000 per position)		(\$100,000)	(\$206,000)	(\$212,180)	(\$218,545)	(\$112,551)						
	S&S per faculty (\$3,000 per position)		(\$6,000)	(\$12,360)	(\$19,096)	(\$26,225)	(\$27,012)	(\$27,823)	(\$28,657)	(\$29,517)	(\$30,402)	(\$31,315)	(\$32,254)
	\$1000 per student S&S		(\$16,000)	(\$32,960)	(\$50,923)	(\$52,451)	(\$54,024)	(\$55,645)	(\$57,315)	(\$59,034)	(\$60,805)	(\$62,629)	(\$64,508)
	40% of Base Tuition to University		(\$152,380)	(\$313,904)	(\$484,981)	(\$499,530)	(\$514,516)	(\$529,952)	(\$545,850)	(\$562,226)	(\$579,093)	(\$596,465)	(\$614,359)
Hospital Expenses	Staff		(\$92,700)	(\$159,135)	(\$229,473)	(\$303,887)	(\$382,560)	(\$394,037)	(\$405,858)	(\$418,034)	(\$430,575)	(\$443,492)	(\$456,797)
	Staff (Independent Contractor)		(\$12,360)	(\$12,731)	(\$13,113)	(\$13,506)	(\$13,911)	(\$14,329)	(\$14,758)	(\$15,201)	(\$15,657)	(\$16,127)	(\$16,611)
	Equipment (Service Contract LinAc)		\$0	(\$100,000)	(\$103,000)	(\$106,090)	(\$109,273)	(\$112,551)	(\$115,927)	(\$119,405)	(\$122,987)	(\$126,677)	(\$130,477)
	Increment in cost of goods and services		(\$44,906)	(\$50,878)	(\$55,902)	(\$61,452)	(\$67,587)	(\$73,028)	(\$78,907)	(\$85,259)	(\$92,122)	(\$99,538)	(\$107,550)
	Capital Renewal Fund		(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	\$0
TOTAL EXPENSES			(\$1,839,534)	(\$2,723,447)	(\$3,449,204)	(\$4,033,153)	(\$4,088,097)	(\$4,070,879)	(\$4,169,347)	(\$3,459,509)	(\$3,564,600)	(\$3,673,190)	(\$3,685,412)
ANNUAL OPERATING NET			(\$148,401)	(\$29,328)	\$299,896	\$41,541	\$246,560	\$464,617	\$578,783	\$1,513,874	\$1,647,542	\$1,792,174	\$2,048,664
ACCUMULATED BALANCE				(\$177,730)	\$122,167	\$163,708	\$410,267	\$874,884	\$1,453,667	\$2,967,540	\$4,615,083	\$6,407,257	\$8,455,920
Earnings before taxes, depreciation and amortization			(\$48,401)	\$70,672	\$399,896	\$141,541	\$346,560	\$564,617	\$678,783	\$1,613,874	\$1,747,542	\$1,892,174	\$2,048,664
ACCUMULATED BALANCE W/O DEPRECIATION				\$22,270	\$422,167	\$563,708	\$910,267	\$1,474,884	\$2,153,667	\$3,767,540	\$5,515,083	\$7,407,257	\$9,455,920

Amended 10/21/2016