

October 31, 2017

To Oregon State University faculty and staff,

Past state budgeting rules prohibiting the use of operating funds for capital purposes, combined with limited resources, have resulted in a significant backlog in needed capital improvements. Sightlines, a facilities analysis firm, estimates it would cost $650 million to fully address OSU’s deferred maintenance backlog, with a further $350 million required to implement recommended life safety and seismic upgrades. We write to update you on the University’s work to address this serious problem.

In spring of 2016, the Provost and the Vice President for Finance and Administration partnered to establish an Infrastructure Working Group (IWG) consisting of representatives from the Provost’s Council, University Housing and Dining, and Athletics, and assisted by the Department of Capital Planning and Development in the Division of Finance and Administration. The IWG was charged with two major tasks.

The first was to develop a clear and transparent process to guide capital planning and recommend projects to University leadership for consideration by the Board of Trustees. Central to the process are an annual planning cycle that assembles needs from across the campus and a set of criteria by which proposed capital projects are prioritized. The criteria fall into the following categories: life safety concerns; operational needs; facility condition; accessibility; space utilization; impacts on finance, scholarship, research, and outreach; impacts on student and employee success; impacts on university reputation; and potential to leverage other sources of funding.

The second task of the IWG was to apply the process to the development of a 10-year capital forecast. The forecast, the first version of which was approved by the Board of Trustees in January 2017, lays out anticipated capital investments over the next decade based on current needs, priorities and resources. Because needs, priorities and resources are constantly changing, both in response to unanticipated maintenance demands and opportunities arising from fundraising and other sources, the capital forecast is a working document that the IWG will update annually, seeking Board approval every two years.

In addition to more systematic and transparent capital planning, the university is employing four strategies to reduce the capital backlog:

* ***Create an annual funding source of $45 million to address building repair and renewal needs.*** Beginning with the FY18 operating budget, we will increase the E&G funding committed to capital improvement and renewal by $5 million in each of the next nine years. This annual allocation is critical because state capital improvement and renewal commitments are not keeping pace with our needs.
* ***Establish a stewardship fund as part of all new capital projects.*** Going forward, budgets for all major capital projects must include a 10 percent allocation to a facility stewardship fund that will partially support the replacement of major building systems and avoid the accumulation of deferred maintenance.
* ***Prioritize renovation over new construction, with a particular focus on research facilities.*** Over the last decade, we have added many new buildings while also making considerable progress on improving our instructional spaces. The current 10-year capital forecast includes 10 major building renovations, with a focus on research facilities with serious maintenance and upgrade needs. The 2017 legislature approved $29 million in state-paid bonds for renovations to Cordley Hall, Fairbanks Hall and Gilkey Hall. Executing these projects and the other projects on the 10-year capital forecast will remove approximately $160 million of the deferred maintenance backlog, provide enhanced accessibility and life safety in many campus buildings, and better support our research mission.
* ***Continue to actively pursue state bond funding for capital improvement and renewal.*** State bonds have been the primary source of funds for capital improvement and renewal in the past and will remain important going forward. They include support for specific projects (e.g., as noted above) and general monies for use at our discretion. Recent discretionary amounts allocated to OSU include $26 million for the 2015-17 biennium and an estimated $18 million for the 2017-19 biennium.

We estimate conservatively that by implementing these strategies our existing deferred maintenance backlog will be reduced by $400 million over the next 10 years. While there are always competing needs for resources, we believe that OSU faculty, staff and students are best served by the University having a sustainable plan to ensure that buildings and infrastructure are safe, operational and functional.

The Capital Planning and Development (CPD) department and the Infrastructure Working Group have initiated the next annual capital forecast planning cycle, with the intent of presenting a revised 10 year capital forecast to the Board of Trustees in January 2018. CPD staff will have completed meetings to discuss space and capital needs with Deans and Unit leaders by the beginning of November. Information on the current forecast and status of various projects are available from Capital Planning and Development.

If you have questions, please contact Anita Nina Azarenko (anita.azarenko@oregonstate.edu), Associate Vice President for University Facilities Infrastructure and Operations (formerly Capital Planning and Facilities Services).

Sincerely,

Edward Feser Michael Green

Provost and Executive Vice President Vice President of Finance and Administration