

Capital Project Budget and Amendment

BACKGROUND

The university is seeking approval of two capital projects – an increase to the budget for the Marine Studies Building of \$11.7 million and approval of a \$10.5 million capital budget to renew Finley Hall, a residential dormitory managed by University Housing and Dining Services (UHDS). A summary of the budgets and funding sources is provided in the following table.

Capital Project	Board Approval Date	Total	State-paid Bonds	OSU-paid bonds	Gifts/grants	OSU Funds
Marine Studies Initiative						
Proposal	May 2015	\$50,000,000	\$25,000,000	\$0	\$25,000,000	\$0
Proposed Amendment		\$11,700,000	\$0	\$10,700,000	\$1,000,000	\$0
Project Total		\$61,700,000	\$25,000,000	\$10,700,000	\$26,000,000	\$0
Finley Hall Capital Renewal						
Phase 1		\$4,990,000	\$0	\$0	\$0	\$4,990,000
Phase 2		\$5,510,000	\$0	\$0	\$0	\$5,510,000
Project Total		\$10,500,000	\$0	\$0	\$0	\$10,500,000

JUSTIFICATION

Marine Studies Initiative

The initial project cost estimate for a Marine Studies Building sited at the Hatfield Marine Science Center (HMSC) was developed in spring 2015, based on data from previous OSU major capital projects and preliminary design considerations. During the process of pre-planning and project development, the university evaluated alternative sites for the building, confirmed HMSC as the preferred location, and added enhanced life safety requirements. The university completed the schematic design phase for the building including program requirements and provision for seismic resilience and vertical tsunami evacuation in June 2017. These design elements and market conditions (escalation in material costs and labor shortages) resulted in a total project cost of \$64.9 million.

University leadership is recommending a more fiscally conservative approach, which will meet the immediate and near-term needs for the building while providing flexibility for future programmatic demands. The revised plan is to construct the building, modifying the second floor design to accommodate an open-office concept and shelling out the third floor for future completion as new programs are developed and enrollment grows. The project cost for this modified plan, which includes additional contingency funds of \$1 million, is \$61.7 million.

Finley Hall Housing

The \$10.5 million Finley Hall Housing renovation addresses deferred maintenance and capital renewal needs of the facility. An initial investment of nearly \$5 million in summer 2018 replaces the failing plumbing infrastructure in half of the facility and renews the student lounge, kitchen, meeting rooms/lounges, restrooms, and the resident director's apartment on the first floor. This work also improves accessibility and privacy in the restrooms. In summer 2019, a \$5.5 million investment would complete the improvements to the remaining restroom infrastructure and proactively upgrade the fire protection system to meet current standards and provide full building protection.

These estimated costs were included in the 10-Year Business Forecast that was accepted by the Board in January 2018. The university has begun the summer 2018 phase of the project of nearly \$5 million under its delegated authority, but is not obligated to complete the 2019 phase at this time. Since the university has combined the two projects into one in order to maximize potential savings from consultant fees, contractor general conditions and project delivery expenses, the total combined project cost of \$10.5 million necessitates Board approval. This project uses no debt and imposes no interest expense on student residents over the next 30 years.

FUNDING SOURCES AND FINANCIAL IMPACTS

Marine Studies Initiative

The additional \$11.7 million for the Marine Studies Building will be covered by \$10.7 million of OSU revenue bond proceeds and \$1.0 million in gifts. The *pro forma* in Table 1 provides more detail.

Finley Hall Housing

The \$10.5 million in funding for the Finley Hall project will come from UHDS cash reserves that have been set aside to address capital improvements and renewal.

The impact of the Marine Studies Building budget amendment and the Finley Hall capital project budget on the university's operating budget is minimal. There is also minimal impact on the financial ratios in the 10-Year Forecast, as shown in Figure 1.

The Marine Studies Building project uses a portion of the revenue bond debt capacity that was projected to be issued in the 10-year business forecast, which will reduce the debt capacity available for other future projects. Specific adjustments will be included in the next update of the 10-Year Forecast.

RECOMMENDATION

Staff propose that the Board approve the capital project budget of \$61.7 million for the Marine Studies Building and \$10.5 million for the Finley Hall capital renewal project.

Table 1. *Pro forma* for the OSU Marine Studies Building capital project

OSU - Marine Studies Initiative														
Project Name Operating Pro Forma														
Resources	FY 19	FY20	FY21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 29	FY 39	FY 40	FY 41	FY 42	FY 49
E&G funding required	\$0	\$712,209	\$1,165,809	\$1,619,409	\$1,642,089	\$1,665,336	\$1,689,164	\$1,713,588	\$1,790,584	\$12,292,621	\$2,127,131	\$2,162,504	\$36,998,761	\$2,479,253
Total Resources	\$0	\$712,209	\$1,165,809	\$1,619,409	\$1,642,089	\$1,665,336	\$1,689,164	\$1,713,588	\$1,790,584	\$12,292,621	\$2,127,131	\$2,162,504	\$36,998,761	\$2,479,253
Expenditures														
Programmatic Costs														
Debt Service Requirements*	\$0	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)	(\$712,209)
Operations & Maintenance Requirements	\$0	\$0	(\$453,600)	(\$907,200)	(\$929,880)	(\$953,127)	(\$976,955)	(\$1,001,379)	(\$1,078,376)	(\$1,380,412)	(\$1,414,922)	(\$1,450,295)	(\$1,486,553)	(\$1,767,044)
Capital Renewal Needs**	\$0									(\$10,200,000)			(\$34,800,000)	
Total Expenditures	\$0	(\$712,209)	(\$1,165,809)	(\$1,619,409)	(\$1,642,089)	(\$1,665,336)	(\$1,689,164)	(\$1,713,588)	(\$1,790,584)	(\$12,292,621)	(\$2,127,131)	(\$2,162,504)	(\$36,998,761)	(\$2,479,253)
Net Resources / (Net Expenditures)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accumulated Balance - E&G	\$0	\$712,209	\$1,878,017	\$3,497,426	\$5,139,514	\$6,804,850	\$8,494,014	\$10,207,601	\$15,501,090	\$45,206,667	\$47,333,798	\$49,496,302	\$86,495,064	\$102,980,669

Pro Forma date: 7/16/2018

*30-year showing based on State bond funding needs; building depreciation is 50 years

**Capital renewal needs are based on componetized depreciation schedule

Figure 1: Financial ratios for 10-Year Business Forecast with updated Marine Studies Building project costs. The black line represents the ratios presented to the Board in the 10-year forecast in January 2018, and the blue line illustrates the ratios with project updates since that time, including those presented here.

