

FY2019 Capital Budget Amendment

BACKGROUND

The university is seeking approval for an amendment of \$20 million to the capital project budget for the Upper Division and Graduate Student Housing project. A summary of the budget and funding sources is provided in the following table.

	Board Approval Date	Total	OSU-paid revenue bonds
Initial Budget	June 2017	\$30,000,000	\$30,000,000
Proposed Amendment		\$20,000,000	\$20,000,000
Project Total		\$50,000,000	\$50,000,000

JUSTIFICATION

Three independent market studies conducted by OSU over the past 10 years have indicated significant unmet demand for beds for upper division students and a need to reconfigure University Housing and Dining Services (UHDS) campus housing units to better meet the needs of current and future students. UHDS currently has 300 rooms that were designed to be double-occupancy which now house three people, resulting in 900 student residents who are impacted by oversubscription (meaning these students may not be able to secure their desired housing or are placed into unwanted triple assignments). As the university focuses on enrollment growth among transfer and upper-division student populations, UHDS finds it lacks enough housing of the types that are attractive to upper division students.

Consistent with both OSU's strategic plan and the UHDS housing strategy, over the next 20 years, UHDS intends to grow and renew its overall housing stock at a moderate rate, commensurate with the need to both ease the oversubscription of current housing occupancy and accommodate predicted modest growth in on-campus student populations. This increase in student housing will be coupled with a rebalancing of residence hall room types to meet the needs and desires of the changing student demographics over the next 30 to 40 years.

The current project will serve upper division undergraduate and graduate students, offering more in-demand studio-style living units that are not currently available while simultaneously addressing oversubscription within other unit types.

UHDS proposes to develop 288 studio housing units (serving 288 to 325 occupants), located on the blocks bounded by 11th and 9th Streets, and Madison and Monroe Avenues.

UHDS developed a project *pro forma* in fall 2016, and in June 2017, the Board of Trustees approved a \$30 million on-campus housing project that would provide 150-250 units and 200-400 beds. As the project moved through the programming, schematic design, and design development phases during fall 2017, three issues arose impacting the original project assumptions:

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1. The market demand is for studio units, and the construction cost per bed for this type of unit is greater than for typical residence hall style rooms.
2. The square footage of the building proposed to be constructed would need to increase significantly in order to have the number of studio units needed for a financially viable residential housing project.
3. The historical per-square-foot construction cost that was used in fall 2016 to initially forecast this development did not adequately consider the rate of construction cost escalation that has occurred nationally over the past two years.

The impact of these factors is that the housing project will cost a total of \$50 million to construct, \$20 million more than originally approved. At this projected higher cost, with refinements in the housing type and conservative occupancy estimates, the project is financially sustainable, meeting all obligations for bond repayment and facility renewal (Figure 1). The 30-year cumulative positive cash flow is \$13.8 million. In year 8, the project has the first single year of positive cash flow. In year 24, the cumulative project cash flow is positive, and the net present value of the project's cash flows is positive, indicating a financially strong and self-sustaining project.

FUNDING FOR THE PROPOSED BUDGET AMENDMENT

The additional \$20 million for the Upper Division and Graduate Student Housing project will be funded by proceeds of OSU-revenue bonds (see Figure 1). The impact of the budget amendment on the university's operating budget is minimal, as are the cumulative impacts on the financial ratios in the Ten-Year Business Forecast, as shown in Figure 2. The Upper Division and Graduate Student Housing project uses a portion of future revenue bond debt capacity that is projected in the Ten-Year Business Forecast, and this reduces the debt capacity available for other future projects. Accordingly, appropriate adjustments to future project plans will be included in the next update of the Ten-Year Business Forecast.

RECOMMENDATION

Staff propose that the Finance & Administration Committee recommend to the Board that it approve the capital project budget of \$50 million for the Upper Division and Graduate Student Housing project.

Figure 1. Pro forma for the OSU Corvallis Upper Division and Graduate Student Housing capital project.

OSU Corvallis Upper Division & Graduate Student Housing Project Pro Forma								
PROJECT STATISTICS		Amount						
Estimated Total Project Cost		\$ 50,000,000						
30 Year Cumulative Positive Cash Flows - After Reinvestment		\$ 13,825,424						
30 Year Project Net Present Value (NPV) - After Reinvestment		\$ 959,560						
		Years 1-5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30	30 Year Total
CASH INFLOWS (REVENUE)								
Revenue		\$ 18,030,667	\$ 22,600,218	\$ 26,199,847	\$ 30,372,803	\$ 35,210,403	\$ 40,818,508	\$ 173,232,446
TOTAL CASH INFLOWS (REVENUE)		\$ 18,030,667	\$ 22,600,218	\$ 26,199,847	\$ 30,372,803	\$ 35,210,403	\$ 40,818,508	\$ 173,232,446
CASH OUTFLOWS (OPERATING & DEBT SERVICE)								
Operating	Personnel	\$ (1,185,291)	\$ (1,374,077)	\$ (1,592,932)	\$ (1,846,645)	\$ (2,140,768)	\$ (2,481,736)	\$ (10,621,449)
	Maintenance	(1,910,174)	(2,214,415)	(2,567,114)	(2,975,989)	(3,449,987)	(3,999,480)	(17,117,159)
	Janitorial	(63,672)	(73,814)	(85,570)	(99,200)	(115,000)	(133,316)	(570,572)
	Utilities (Including Data/Phone)	(1,283,237)	(1,531,284)	(1,807,524)	(2,136,699)	(2,529,709)	(2,999,873)	(12,288,326)
	Other	(277,865)	(324,304)	(377,575)	(439,777)	(512,457)	(597,440)	(2,529,417)
Debt Service	Interest	(12,726,160)	(11,559,072)	(10,051,723)	(8,104,909)	(5,590,505)	(2,343,032)	(50,375,400)
	Principal Payments	(4,003,073)	(5,170,161)	(6,677,511)	(8,624,325)	(11,138,729)	(14,386,202)	(50,000,000)
TOTAL CASH OUTFLOWS (OPERATING & DEBT SERVICE)		\$ (21,449,472)	\$ (22,247,128)	\$ (23,159,949)	\$ (24,227,543)	\$ (25,477,153)	\$ (26,941,078)	\$ (143,502,324)
NET CASH INFLOWS/(OUTFLOWS) BEFORE REINVESTMENT		\$ (3,418,806)	\$ 353,090	\$ 3,039,898	\$ 6,145,260	\$ 9,733,250	\$ 13,877,430	\$ 29,730,123
Cumulative Cash Flows before Reinvestment		\$ (3,418,806)	\$ (3,065,715)	\$ (25,818)	\$ 6,119,443	\$ 15,852,693	\$ 29,730,123	
CASH OUTFLOWS (CAPITAL REINVESTMENT - Major renovation/repairs/furnishings)								
Capital Expenditures		\$ -	\$ (1,480,209)	\$ -	\$ (11,181,169)	\$ -	\$ (3,243,321)	\$ (15,904,699)
TOTAL CASH OUTFLOWS (CAPITAL REINVESTMENT)		\$ -	\$ (1,480,209)	\$ -	\$ (11,181,169)	\$ -	\$ (3,243,321)	\$ (15,904,699)
NET CASH INFLOWS/(OUTFLOWS) AFTER REINVESTMENT		\$ (3,418,806)	\$ (1,127,119)	\$ 3,039,898	\$ (5,035,908)	\$ 9,733,250	\$ 10,634,109	\$ 13,825,424
Cumulative Cash Flows after Reinvestment		\$ (3,418,806)	\$ (4,545,925)	\$ (1,506,027)	\$ (6,541,935)	\$ 3,191,315	\$ 13,825,424	

NPV = *Net present value* is the difference between the present value of cash inflows and cash outflows over a period of time. NPV is used in capital budgeting to analyze the financial viability of a projected project. The discounted NPV rate in this *pro forma* is 5.25%.

Figure 2: Financial ratios for the Ten-Year Business Forecast with updated Upper Division and Graduate Student housing 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.

