

Approval of Capital Projects Policy

BACKGROUND

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 approval as the scope, program, and design are further developed and refined.

At the May 31, 2018, Finance & Administration Committee meeting, staff presented a proposed new approach for considering projects on a project-by-project basis, rather than *en bloc*, and at specific “stage gates” in the project life cycle. The Committee discussed the proposed approach and directed staff to present at the next meeting a draft policy implementing the approach.

PROPOSED POLICY

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 draft policy provided in Exhibit A of Attachment 1 would establish two “stage gates” for any project anticipated to have a total project budget of more than \$5 million.

The policy describes the information that will be presented at each of these stage gates (Section IV). The first phase in the stage gate process would be approved by the Finance & Administration Committee at or near the completion of the schematic design phase. The second stage gate would occur at or near the completion of the design development phase, would be reviewed by the Committee and approved by the Board, and would establish the final approved budget for the capital project.

The policy also establishes a threshold for when the university must seek approval of an increase to a Board-approved capital project budget – when the total of all increases exceeds \$2 million or fifteen percent of the approved budget, whichever is greater (Section V). These thresholds are illustrated in the following table:

Example Project	Board-approved budget	Threshold for increases requiring Board action
Building A	\$80 million	\$12 million
Building B	\$5 million	\$2 million

The Executive & Audit Committee is considering amendments to the university delegation that would be consistent with the proposed policy in terms of which projects require approval and the threshold for reviewing increases in capital budgets (see TAB E).

The proposed policy moves the Board toward a project-by-project approval process. However, long range planning and oversight of projects would be essential. Long range planning will be

October 25-26, 2018 Board of Trustees Meetings

driven by the Ten-Year Capital Forecast presented each winter to the Board, with the forecast being embedded in the Ten-Year Business Forecast in even-numbered years. The Committee will monitor the status of capital projects in progress through the status report presented to the Committee each fall. This cycle of planning and oversight as shown in Attachment 2, combined with the stage-gating of individual projects, provides more transparency and predictability for the Board and university and more effective oversight by the Board.

RECOMMENDATION

Staff propose that the Finance & Administration Committee recommend to the Board adoption of the resolution and policy establishing the process for approving capital projects as provided in Attachment 1.

RESOLUTION NO. ____



Oregon State University Approval of Capital Projects

Whereas, the Board of Trustees of Oregon State University (the "Board") is vested by law with the power and authority to govern the University; and

Whereas, the bylaws of the Board specify that the Board's governance responsibilities include ensuring the University's fiscal integrity, overseeing the University's financial resources and other assets, and preserving and protecting the University's assets for posterity; and

Whereas, the Board has retained authority for approval of a capital project with a total project cost anticipated to exceed \$5 million, including for architects, construction managers, engineers and other professional consultants; and

Whereas, the Board has retained authority for approval of an increase to a Board-approved capital project budget where the total of all increases to the budget exceed \$2 million or fifteen percent (15%) of the approval budget, whichever is greater; now therefore,

The Board of Trustees hereby approves the policy on Approval of Capital Projects, attached hereto as Exhibit A.

This Resolution is effective _____.

APPROVED by the Board of Trustees _____, 2018

Secretary to the Board

/ /2018
Date



Oregon State University Approval of Capital Projects

I. Policy

Capital projects involve the construction, acquisition, renovation, modification, and expansion of the physical plant of the university. Prior approval of the Board of Trustees is required for the planning and implementation of a capital project with a total project cost anticipated to exceed \$5 million, including costs for architects, construction managers, engineers and other professional consultants.

Board approval is also required for an increase to a Board-approved capital project budget where the total of all increases to the budget exceed \$2 million or fifteen percent (15%) of the approval budget, whichever is greater.

II. Purpose

The purpose of this policy is to guide the process by which a capital project is presented for consideration by the Board. University Facilities, Infrastructure and Operations facilitates this process for the university working collaboratively with the Board Secretary on scheduling requests for consideration of a capital project by the Finance & Administration Committee and Board.

III. Definitions

For the purpose of the policy, the following definitions apply:

- A. Stage gates: A project management technique in which a project is divided into distinct stages, separated by decision points (known as gates).
- B. Programming phase: The scope (building and user requirements) is determined, building area is established, and project cost estimating begins during this phase.
- C. Schematic design phase: During schematic design, the project scope is translated into physical drawings of space that include floor plans, site plans and building elevations.
- D. Design development phase: Schematic designs are expanded to include details and specifications required for construction. This includes size, function, configuration, equipment and materials for the building structure and systems. Construction documents are completed at the end of this phase to ensure compliance with codes, statutes, and university standards. This also includes quality controls and estimates of all project costs.
- E. Construction phase: Consists of two primary phases: pre-construction and bidding, and construction. The first phase procures labor and materials and finalizes the budget,

October 25-26, 2018 Board of Trustees Meetings

the second completes the building and scope of the project.

- F. Total project cost: Consists of direct and indirect costs incurred as a result of pursuing the construction project, as more fully described below;
- a. Direct construction costs include but are not limited to: materials and labor, general requirements and conditions (project overhead and contractor site and project management), design and construction contingency, construction manager/general contractor (CM/GC) fees, payment and performance bonds, and liability insurance.
 - b. Indirect costs include but are not limited to: professional services, owner's contingency, OSU project management fees, stewardship fund, moving costs, equipment, furniture, permits, parking, and applicable governmental charges.
- G. Contingency: Potential changes to the work scope that may become evident during planning and construction. The construction contingency is a percentage of the project budget, typically 10 percent of the total project budget, encumbered to offset the cost associated with change management items. The amount varies, primarily based on the complexity and associated risks of each project. Occasionally a project may carry a more significant amount of risk, which may require more than a 10 percent contingency.
- H. Pro forma: A projected or estimated financial statement with revenues and expenditures relevant to the project based on certain assumptions and projections.

IV. Process for Advancing a Capital Project

Capital projects subject to this policy require Board approval at the following stage gates of the project planning and development process:

With the following exception, capital projects that are included in the annual Ten-Year Capital Forecast accepted by the Board may proceed through the completion of the schematic design phase under the direction of the Vice President for Finance and Administration. Capital projects requiring legislative approval of funding may not proceed past the programming phase until legislative approval is secured.

A. At or near completion of schematic design phase

At or near completion of the schematic design phase, the university will seek approval from the Finance & Administration Committee to advance a capital project to the next phase of design development.

The request will include the following:

1. A general description of the project, its scope and program;
2. Estimated total project budget, funding, and timeline;
3. Identification of risks and an explanation of the proposed contingency included in the estimated project cost based on the risk analysis;
4. For projects requiring future legislative approval, an explanation of other considerations related to the timing and likelihood of legislative approval; and

5. A preliminary pro forma describing project related revenues and expenses.

B. At or near completion of design development phase

At or near completion of design development, the university will seek approval from the Board to advance a project to construction phase. The Finance & Administration Committee will review the request and recommend action to the Board.

The request will include the following:

1. A description of the final project scope and program;
2. Total project cost, funding, and timeline;
3. An explanation of risks identified and how they have been addressed in the total cost and timeline; and
4. A final pro forma describing project-related revenues and expenses.

Approval by the Board establishes the approved capital project budget.

V. Changes to the Approved Budget for a Capital Project

Once the approved budget has been established by the Board, any increase(s) anticipated to cause the total of all increases to a capital project budget to exceed \$2 million or fifteen percent (15%) of the approved budget, whichever is greater, must be approved by the Board after review by the Finance & Administration Committee. The Chair of the Board may schedule consideration by the Executive & Audit Committee, if the university can provide compelling documentation of the urgency or need.

VI. Emergency Construction

If an emergency compels immediate action so that waiting to obtain Board approval would jeopardize, for example, the safety, security, or viability of a building, the President is authorized to undertake and continue to implement measures to secure the building and to remediate damage or destruction arising from the emergency and to approve work in light of the circumstance. Upon occurrence of an emergency requiring immediate construction planning and implementation or upon the discovery of an exigent circumstance that is likely to jeopardize the safety, security or viability of a building, the President shall notify the Chair of the Finance & Administration Committee and provide information about the nature of the emergency, identify project costs known at that time, and identify the planned source of funding for the costs. Once final costs are determined, a project budget for emergency construction or an amended project budget reflecting additional work on an approved project due to exigent circumstances will be presented to the Finance & Administration Committee for approval.

Figure: Annual cycle of oversight.

