THE OHIO STATE UNIVERSITY BOARD OF TRUSTEES
FISCAL AFFAIRS COMMITTEE

September 17, 2009

TOPIC: Capital Recommendations

CONTEXT:

Total capital requests from various units of the University for facility projects total more than $2.5 billion for the next six years (FY 2011 – FY 2016), or more than $400 million annually. This compares with a current spending level of about $260 million annually. Two billion dollars of this amount includes requests for University debt, which, if funded, would double the level of debt over the next six years.

Moving ahead with a strong facilities renewal and expansion program is critical to meet University needs, but must be done so in a way that is consistent with academic and physical master plans and is financially prudent.

SUMMARY OF PRELIMINARY RECOMMENDATIONS:

Recommendations should flow from a set of conclusions based on what has been learned from the planning process so far. (Attachment A)

Recommendations for the October Board meeting should incorporate specific goals. (Attachment B)

All resource options should be explored. (Attachment C)

Deliverables for the October Board meeting are included. (Attachment D)

CONSIDERATIONS:

- Is this supportive of our academic goals?
- Is this consistent with what is coming out of the planning reviews?
- Have all the appropriate options been identified?
- Who else needs to be consulted?

REQUESTED OF FISCAL AFFAIRS COMMITTEE:

For discussion and advice. No vote required.
Conclusions

1. The Academic Plan should drive capital priorities.

2. Capital planning needs to be looked at holistically, both in terms of the University Master Plan and available funding sources.

3. The Sasaki review shows that the University has a sufficient amount of academic space, but that the space is not of sufficient quality nor is it effectively used.

4. The Proctor study shows OSU is relatively inflexible compared to other Universities due to the high proportion of its resources committed to fixed assets (buildings) as opposed to liquid assets (cash).

5. The University's own studies show a large and growing deferred maintenance problem that needs to be addressed.

6. The University has had a low level of bonded debt historically, but an aggressive building program in recent years and current economic uncertainty may make it more risky to issue large amounts of debt in the future.

7. Compared to other universities, OSU has a greater choice of income streams other than debt to fund capital needs.
Recommendations for September

1. Based on the Academic Plan, Master Plan and prior discussions, the University's highest capital priorities should be:
   - North Academic Core
   - Project One
   - Housing
   - Infrastructure

   NOTE: All of these recommendations emphasize improved quality of space, as opposed to adding more space.

2. Capital planning needs to be looked at holistically both in terms of integrated physical planning and funding sources.

3. The University should explore other funding sources for capital including partnerships (particularly for new housing) and alternatives to strengthen the balance sheet to increase debt capacity.

4. The University should move over a defined period of time to phase funding depreciation out of operating budgets for both General Fund and non-general fund units. This will insure that deferred maintenance problems do not grow in the future.

5. In order to preserve future flexibility, bond ceiling targets should be established now for CY 2010, 2012 and 2014, but may be augmented at a later date, if conditions merit. This should be sufficient to allow key projects to proceed, but sensitive to the current economic environment.

6. The University should present more specific recommendations at the October Board meeting, but Project One, housing renovation and supporting infrastructure need to proceed in a timely manner.
Elaboration of Strategic Questions

1. Set Clear Priorities

Not all capital projects are of equal value to the University. Clear priorities should be set to allow the most beneficial projects to proceed as soon as possible. This means others may be scaled back, delayed or eliminated entirely.

2. Explore Other Funding Sources

The University has multiple revenue streams. Although state capital dollars and long-term bonds will still be important, the University needs to explore other sources as well.

3. Build More Capacity

Can the University expand its capacity by strengthening its balance sheet? If so, how, and what would the implications be?

4. Defining Capacity

Currently, debt capacity is defined by the University as Moody’s AA2. Is this the only option? Does it best serve our strategic agenda? What are the implications of changing or staying where we are?
What Happens Next  
October 28 & 29 Board of Trustees Meeting

Administration will return with:

1. Prioritized list of recommended projects.
2. Preliminary funding sources, including evaluation of options and recommendations.
3. More specific recommendations for addressing deferred maintenance issues.
4. Matrix showing how various objectives are aligned.
5. Risk assessment and mitigation strategy.