The Ohio State University
Board of Trustees

October 28, 2009

TOPIC:
Capital Recommendations

CONTEXT:
At the September 17th Fiscal Affairs Committee meeting, the University Administration promised to come back in October with these specific deliverables, which are listed below.

RECOMMENDATION:
Deliverables include the following:

1. Prioritized list of recommended projects (Attachment 1A & B).
2. Preliminary funding sources, including evaluation of options and recommendations (Attachment 2A & B).
3. More specific recommendations for addressing continuing maintenance issues (Attachment 3).
4. Matrix showing how various objectives are aligned (Attachment 4).
5. Risk assessment and mitigation strategy (Attachment 5).
6. Recommendations (Attachment 6)

CONSIDERATIONS:

- Do the attached documents meet the September commitment?
- Does this set of recommendations appropriately advance the Academic Plan and the President's six goals?
- What happens next?
- Who has been consulted?

REQUESTED OF BOARD OF TRUSTEES:

Approval of attached Resolution.
Prioritized List of Tier One Recommended Capital Projects

Tier One

North Academic Core
Chemical and Biomolecular Engineering
And Chemistry $ 126M
Sullivant, Smith & Cunz Hall Renovation $ 34M
Sub Total $ 160M

Project One
Hospital Tower and Associated Projects $1,000M

Student Housing
South Campus High Rise Renovation $ 172M

Associated Infrastructure & Enabling Projects
Project One & South Camps High Rise $ 226M
Academic Core North Support $ 95M
Sub Total $ 331M

Grand Total $1,653M

NOTE: Does not include $191M in bonds for other projects previously approved.
**Tier Two Projects**

**Tier Two** (high priority to do over the next two to four years, but need funding sources)

- Hall Residence Complex Expansion Project $50M
- Campus Partners Capital Support * $3M
- Campus Safety/Emergency Communications $25M
- Infrastructure $100M
- Safety, Access, Wayfinding $15M

* For FY 2010 and FY 2011
# Funding Sources for Tier One Projects
*(in millions)*

## North Academic Core - $160M
- Chemical Engineering Building - $126M
  - State Capital * $97.5
  - Engineering ** $17.5
  - Arts and Sciences $11.0
  - **Total** $126.0
- Sullivant, Smith, Cunz Hall - $34M
  - State Capital *** $12.1
  - Colleges of the Arts & Sciences $6.3
  - Public Health $1.1
  - Development **** $14.1
  - **Total** $33.6

## Project One - $1,000M
- University Bonds $925.0
- Fund Raising $75.0
- **Total** $1,000.0

## South Campus Residence Halls - $172M
- University Bonds $172.0

**Sub Total** $1,344.1

## Supporting Infrastructure and Enabling Projects $320.5M

<table>
<thead>
<tr>
<th>Project</th>
<th>Fund Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Academic Core</td>
<td></td>
</tr>
<tr>
<td>Enabling Projects (State)</td>
<td>$12.0</td>
</tr>
<tr>
<td>Infrastructure (Bonds)</td>
<td>$83.0</td>
</tr>
<tr>
<td>Project One &amp; South Campus Residence Halls</td>
<td></td>
</tr>
<tr>
<td>Enabling Projects (Bonds)</td>
<td>$12.5</td>
</tr>
<tr>
<td>Infrastructure (Bonds)</td>
<td>$213.0</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td><strong>$320.5</strong></td>
</tr>
</tbody>
</table>

**Grand Total******* $1,652.1

* $30 million already received
** $10 million fund raised
*** Already received
**** Have $13 million in pledges
***** Summary of Sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$1,405.5</td>
</tr>
<tr>
<td>State Capital</td>
<td>$121.6</td>
</tr>
<tr>
<td>Other</td>
<td>$125.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,652.1</td>
</tr>
</tbody>
</table>
# Tier One

## Cash Flow Analysis

<table>
<thead>
<tr>
<th>Project</th>
<th>State Capital Dollars (in millions) Biennium</th>
<th>2009-2010</th>
<th>2011-2012</th>
<th>2013-2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical and Biomolecular Engineering and Chemistry (CBEC)</td>
<td>$15.9</td>
<td>$40.8</td>
<td>$40.8</td>
<td>$97.5</td>
<td></td>
</tr>
<tr>
<td>Enabling Projects</td>
<td>$12.0</td>
<td>0</td>
<td>0</td>
<td>$12.0</td>
<td></td>
</tr>
<tr>
<td>Sullivant Hall/Cunz/Smith</td>
<td>$12.1</td>
<td>0</td>
<td>0</td>
<td>$12.1</td>
<td></td>
</tr>
<tr>
<td>Previous commitments*</td>
<td>$19.0</td>
<td>0</td>
<td>0</td>
<td>$19.0</td>
<td></td>
</tr>
<tr>
<td>To Be Allocated</td>
<td>0</td>
<td>$15.2**</td>
<td>$15.2**</td>
<td>$30.4</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$59.0</td>
<td>$56.0</td>
<td>$56.0</td>
<td>171.0</td>
<td></td>
</tr>
</tbody>
</table>

**Availability of State Funds to be allocated for other uses in 2011/2012 and 2013/2014 is dependent upon the availability of and ability to use portions of the college and development commitment towards funding the CBEC project to offset project expenses in 2011 thru 2014.**

<table>
<thead>
<tr>
<th></th>
<th>University Bonds (in millions) Calendar Year of Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CY 2010</td>
</tr>
<tr>
<td>Project One</td>
<td>$92</td>
</tr>
<tr>
<td>South Campus High Rise</td>
<td>$13</td>
</tr>
<tr>
<td>Enabling Projects</td>
<td>$3</td>
</tr>
<tr>
<td>Previous Commitments *</td>
<td>$180</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$131</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$419</td>
</tr>
</tbody>
</table>

**NOTE: Cash flow reflects anticipated need through 2014 only. These numbers are preliminary and will change.**

* Previous Commitments State dollars includes College of Medicine and Thompson Library.
 Previous Commitments bonds include:
  - Ohio Union $84
  - Lane Ave Residences & Other Student Life Projects $37
  - Student Academic Services Bldg. $18
  - Garages $35
  - Infrastructure $17
  - $191
Recommendations Regarding Preventative/Planned Maintenance of Facilities

Principles

- “Planned Maintenance” (also referred to as “renewal” or “preventative maintenance”) means maintenance performed when it is needed or is scheduled to be and which, therefore, is not delayed or deferred to a future period.
- “Deferred Maintenance [DM]” means maintenance that was not performed when it was needed or scheduled, and therefore is overdue.
- First, we need to stop the DM backlog from growing before it can get better.
- Planned Maintenance gap is particularly acute for General Fund units where there is less flexibility to generate needed resources, yet these are core academic spaces.
- The Academic Facilities Plan (a Sasaki study) has confirmed the quality of academic space is much more of a problem than the quantity.
- This issue must be addressed in alignment with other priorities. Great academic programs cannot succeed in substandard facilities. Great facilities are meaningless without great academic programs.

Scope of the Problem

- Based on the accounting methodology used in private industry, the University already funds depreciation. Our annual capital expenditures of $300 million exceed estimated depreciation of $200 million.
- However this is misleading because it does not take into account replacement costs, added space, differences among fund groupings, or deferred maintenance.
- Facilities Operations and Development estimates the University should allocate an additional $4.00/ASF above the $3.80/ASF currently spent for planned maintenance to reach the peer average of $7.80/ASF.
- However, currently the way these funds are tracked in the University’s accounting systems make it difficult to easily distinguish between planned maintenance, emergency repairs, renovation, renewal, deferred maintenance etc. in all cases. If all state and general funds currently available for facilities are considered, another $18 million is spent annually on maintenance of General Fund’s buildings which equals an additional $2.60/ASF ($6.40 total).
RECOMMENDATIONS

- Increase the POM for all General Funds units by an additional $0.15 per ASF each year for five years in a row beginning in FY 2011. This would yield more than an additional $5 million annually in perpetuity when completed. These funds would be used for planned maintenance only.
- Phase in a coordinated plan to address deferred maintenance issues. This will be presented at the February Board meeting.
## Alignment Points

<table>
<thead>
<tr>
<th>Project</th>
<th>Academic Plan</th>
<th>Master Plan</th>
<th>Deferred Maintenance</th>
<th>Financial Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Academic Core</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Project One</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>South High Rises</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
</tbody>
</table>

The purpose of this chart is to reflect whether the projects listed have been aligned with all the appropriate elements of the University's planning process. Financial plans for the North Academic Core and Infrastructure are still under review.
Risk Assessment Mitigation

The University is currently in a sound position financially and most likely will be able to issue up to $400M in new debt in late CY 2010 without adversely affecting its credit rating.

However the biggest challenge remains economic uncertainty. The most significant period of financial risk occurs in the FY 2012/FY 2013 time when debt issuance will be highest, the next state biannual budget is not yet known and federal stimulus money expires.

The University also needs to be sensitive to the potential risks to safety, income generation and academic goals if needed construction does not move forward.

Consequently the best strategy to continue to advance academically while remaining financially prudent is to:

- Carefully prioritize projects, moving forward only on a selective basis
- Use circuit breakers whenever appropriate
- Build up the University’s balance sheet and debt capacity between now and CY 2012
- Improving financial forecasting capability
RECOMMENDATIONS

1. Proceed as planned with Tier I projects.

2. Proceed with a plan to strengthen the University’s balance sheet to support Tier I and Tier 2 projects at a minimum.

3. Cap the next bond sale (CY2010) at about $400M.

4. Proceed with Tier 2 projects but only as resources are identified

5. Proceed with plan to add $0.15 per ASF to POM charges for preventative and planned maintenance needs every year for five years, beginning in FY 2011.

6. Place a strategic pause on all Tier 3 projects while the long term impact of programmatic needs, economic environment and debt capacity are assessed.

7. Return with more formal recommendations at the February Board meeting.
<table>
<thead>
<tr>
<th>Project</th>
<th>Total Budget</th>
<th>On Time</th>
<th>On Budget</th>
<th>Additional Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio Union Replacement</td>
<td>$118.8M</td>
<td></td>
<td></td>
<td>Project is progressing on time and on budget and has a target completion of winter 2010. Move in will being and the building will be open in Spring 2010. Project is pursuing LEED certification and currently is expected to exceed ASHRAE 90.1 2004 by more than 21%</td>
</tr>
<tr>
<td>Student Academic Services Building</td>
<td>$32.0M</td>
<td></td>
<td></td>
<td>Project construction is approximately 80% complete and the project is proceeding on time and on budget. Move in will begin in February 2010. This project is striving for silver LEED and is currently exceeding ASHRAE 90.1 2004 by over 21%</td>
</tr>
<tr>
<td>Lane Avenue Parking Garage</td>
<td>$30.9M</td>
<td></td>
<td></td>
<td>Project construction is approximately 90% complete and the project is proceeding on time and on budget. Once completed the garage will add approximately 1,400 new parking spaces. The entire garage is expected to open in mid-December.</td>
</tr>
<tr>
<td>Cunz Hall Renovation</td>
<td>$24.3M</td>
<td></td>
<td></td>
<td>Project construction has just begun, consisting of demolition and hazardous materials abatement. The project will be the first full building renovation to pursue LEED silver certification.</td>
</tr>
</tbody>
</table>