

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance and Facilities

Date of Meeting: January 18, 2006

Agenda Item: FY2006 Capital Budget Update

Proposed
Policy Change

Approvals
Required by
Policy

Other
Approvals

Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda: Board Policy 6.5.1, Capital Program Planning, requires the Board of Trustees to establish criteria for and approve a prioritized multi-year capital budget, approve capital project priorities and guidelines, and final capital projects lists.

Scheduled Presenter(s): Allan Johnson, Associate Vice Chancellor Facilities

Outline of Key Points/Policy Issues: The Board approved the FY2006-2011 Capital Budget in June 2005. The Chancellor was authorized at that time to make adjustments in project cost estimates as necessary and to forward the budget to the Governor for consideration in the state capital budget to be presented at the 2006 legislative session. The total request at that time was estimated at \$277.3 million. The revised budget request now totals \$280.4 million.

Background Information: Project execution status of authorized and funded capital projects is normally reported to the Board via a semi-annual report mailed to Board members in January and July, using data “as of” December 31st and June 30th respectively. An update is provided this month to advise the Board of impacts to projects as a result of unexpected inflation and other factors.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

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| BOARD INFORMATION |
| FY2006 Capital Budget Update |

BACKGROUND

In June 2005 the Board of Trustees approved the FY2006 - 2011 Capital Budget, specifically the projects and priorities for FY2006. The Chancellor was authorized at that time to make adjustments in project cost estimates as necessary and to forward the budget to the Governor for consideration in the state capital budget to be presented at the 2006 legislative session. The total request at that time was estimated at \$277.3 million.

Since June, staff has been working with colleges and universities, and their predesign or design architects and engineers to finalize project cost estimates. This was of particular concern due to the volatile construction industry pricing conditions being experienced this year related to fuel and reported scarcity of construction materials.

Beginning in September, Facilities and Government Relations staffs accompanied legislative committees touring campuses to familiarize legislators and their staffs with capital budget projects. Members of the House Higher Education and Capital Investment Committees, and the Senate Capital Investment Committee completed tours of most campuses in Greater Minnesota by December. Visits to metro area campuses are anticipated prior to session; several visits have been scheduled for January. Notable on these visits to date has been the keen interest many legislators have shown in major repair and renewal projects to be funded from the Higher Education Asset Preservation and Replacement (HEAPR) program. College and university presidents, along with staff, faculty and students, have conducted well orchestrated, informative and thorough briefings and presentations of their capital investment and HEAPR requirements.

CAPITAL BUDGET CURRENT STATUS

Attachment A indicates the projects, priorities and initial cost estimates as approved by the Board in June, and final cost estimates as submitted to the Department of Finance in late October. Cost estimates have been adjusted, primarily due to reexamining inflation calculations for Minnesota State University, Mankato Trafton Science Center addition and renovation; Century College Science and Library building; Minnesota State College - Southeast Technical, Red Wing renovation; Normandale Community College classroom renovations and building additions; System-wide Science and Applied Technology classroom renovations; and Metropolitan State University Smart Classroom Center. The revised budget request now totals \$280.4 million.

In addition to these cost adjustments, the following project scope clarifications and modifications were made:

Priority #15, Systemwide Science Lab and Applied Technology Classroom Renovations: In addition to a cost estimate adjustment, the project scope was altered to defer at this time the relocation of the Perham office to the Detroit Lakes campus of Minnesota State Community and

Technical College as well as modify the planned renovation of that campus. Existing space at Detroit Lakes in sign graphics and neon sign manufacturing will be remodeled to create space for a "Rural Enterprise Center," student life center, and relocated and enlarged bookstore. The Rural Enterprise Center will sponsor seminars, workshops, customized training, and credit-based business management programs focused on starting and growing rural businesses. In addition, the Center will feature outreach programs to new and existing businesses in the northwest region, and will house a cooperative venture with the White Earth Tribal and Community College to develop wind, solar, and bio-energy programs as viable rural businesses.

Priority #16, Demolition: Projects for demolition of older residential halls at Minnesota State University, Mankato and Winona State University were deleted. The new residential construction will not be available until 2008 in the case of Mankato, thus making demolition infeasible before that time. At Winona State, further evaluation of on and off-campus residential requirements was deemed necessary by the university.

Priority #17, Land Acquisition: Costs were increased to reflect values in latest appraisals, specifically St. Cloud Technical College building acquisition increased to \$3.4 million; Fond du Lac Tribal and Community College adjacent property acquisition increased to \$1.1 million; and Dakota County Technical College acquisition of University of Minnesota property increased to \$3.45 million.

Priority #24, Minneapolis Community and Technical College/Metropolitan State University, Law Enforcement Center: A site for the project was selected on the Brooklyn Park campus of Hennepin Technical College. Over 20 sites were considered in the Twin Cities area, with five sites undergoing intensive review. In addition to the site's accessibility to all metro area institutions with law enforcement and criminal justice programs, a unique collaboration opportunity with Hennepin Technical College's fire and emergency management programs is possible. The site is also supported by the Hennepin Technical College campus master plan for development of the Brooklyn Park campus.

OTHER CAPITAL PROJECTS OF INTEREST

As the time approaches for the 2006 legislative session, several capital projects which will affect colleges and universities have begun to emerge. While none of these projects are currently in the capital budget submitted by the System, the Board should be aware that one or more of these may find their way into the bonding bill.

Southwest Minnesota Regional Event Center: This \$17.8 million project is proposed for the campus of Southwest Minnesota State University, Marshall. The main focus of the project is an upgraded athletic field with dome capability; bleacher stadium seating for 5000; press box and suites; classrooms, meeting rooms, restrooms and concessions. Local legislators have submitted this project to the Department of Finance. Funding sources are expected to be \$5 million in private donations and \$12.8 million in state general obligation bonds. The project would also act as a regional venue for high school athletic events, and conference and meeting space for the university and Marshall community and area businesses.

Bemidji Regional Event Center: This \$38.0 million project is proposed for the central downtown district of the City of Bemidji, and has been submitted to the Department of Finance by the City of Bemidji as a community project. The request for 2006 is \$3 million for planning and site development. A significant portion of the project would be devoted to an ice arena for

Bemidji State University. It is contemplated that the University would use the arena under a lease or use agreement with the City. Because of the project's location in downtown Bemidji and its scope, it is not expected to be included in the higher education portion of the bonding bill.

Workforce Centers: Two projects have the potential for emerging during the session for collocating Workforce Centers on college campuses, specifically a \$3.5 million project at the Cambridge campus of Anoka Ramsey Community College and a \$8.5 million project at Rochester Community and Technical College. These projects were submitted during the capital budget process last winter, but were not included on the Board's final project list due to low scoring and questions related to which state agency should be sponsoring Workforce Center construction. Discussions with the Department of Employment and Economic Development (DEED) have not yielded a clear picture or firm policy on the issue. There is a strong possibility that one or both of these projects will find their way to the MnSCU portion of the bonding bill. Should that occur, there must be agreement that DEED and its partners will pay the full one-third debt service cost for their portion of the building through rent payments. While this is a satisfactory financing outcome, it does run the risk of reducing the total amount of bonding dollars allocated to MnSCU.

2005 CAPITAL PROGRAM CURRENT STATUS

Project execution status of authorized and funded capital projects is normally reported to the Board via a semi-annual report mailed to Board members in January and July, using data "as of" December 31 and June 30 respectively. An update is provided this month to advise the Board of impacts to projects as a result of unexpected inflation and other factors.

When a bonding bill failed to pass in the 2004 legislature, the Board authorized increasing the FY2004 capital budget request of \$274.9 million by \$22.6 million to account for inflation between 2004 and 2005. (There was also a downward scope adjustment of \$4.9 million in one project.) This increase was the result of applying an 8.63% construction cost escalation factor to selected projects, which was an average recommended to the legislature by the Department of Finance. In April 2005, \$213.6 million was appropriated to Minnesota State Colleges and Universities out of a \$292.6 million request to the 2005 legislature.

Of the \$213.6 million, \$41.5 million was appropriated for Higher Education Asset Preservation and Replacement (HEAPR) projects. Execution of this phase of the program is ahead of schedule, which anticipates encumbering all funds in 24 months and spending all funds in 30 months. Funds encumbered as of December 31, 2005 are \$23.9 million, or 57.7% of the appropriation. See Attachment B. For comparison with 2002, the last time HEAPR funds were received, see Attachment C. Advance funding of many project designs using prior year HEAPR dollars and timely project planning enabled campuses and the Office of the Chancellor to move quickly on project execution. For example, most of the roof replacement projects were bid in early April, allowing contracts to be awarded as soon as appropriation funding became available. As of this writing, 18 roof replacements amounting to 445,000 square feet and valued at \$9.3 million are under contract; nine roof replacements are substantially complete. The balance of the 2005 HEAPR roof program, \$2.1 million, will be bid in early 2006 for accomplishment during the 2006 construction season. In addition, 8 design contracts will be awarded for roof replacements scheduled in the 2006 HEAPR program.

Another example of prompt execution is the boiler replacement project for Central Lakes College, Brainerd. Design documents were prepared last winter using 2002 HEAPR funds. When 2005 funds became available in the spring, the boilers was ordered. These four boilers are now installed and working, less than five months after funds became available.

A total of \$151.7 million was appropriated for construction funding of 19 specific line item capital projects, not including the smaller systemwide classroom and lab remodeling and demolition initiatives. These projects contain 21 major construction contracts, 13 of which have been bid and awarded. The remaining eight construction projects are scheduled for bid in 2006.

Of the 13 contracts bid and awarded, 7 came in at or under budget. Final contract award amounts for 6 of the 7 ranged from 0% to 10% under budget. Clearly, the added 8.63% factor was necessary. Minnesota State University Moorhead Hagen Hall Science Renovation (Phase II) project was the greatest amount under estimate, coming in at \$6.0 million or approximately \$1.6 million (21%) under budget. Variance in this bid amount can be attributed to a combination of mistakes in the architect's estimating and a better than expected bidding climate at that time.

The remaining 6 projects came in over budget, with contract awards ranging between 1% to 17% over construction estimates. Three projects were able to award contracts by making budget adjustments within the overall project budget. The other three projects, Anoka-Ramsey Community College, Cambridge Building Addition; Inver Hills Community College, Student Services Addition; and Lake Superior, Academic and Student Services Addition required redesign and a second bid to allow award of a construction contract within project budget. The biggest variance in two of these projects can best be attributed to mistakes by the architects' estimating consultant. All of these projects required scope reductions. Renovation work was reduced in the case of Inver Hills; furnishings and equipment were reduced at Cambridge; and various scope and furnishings reductions were applied to the Lake Superior project. Without the added 8.63% factor, these projects would be in even more difficulty.

Overall, execution is proceeding well, although slowed somewhat due to the need to redesign and rebid the three major contracts noted above. See Attachment D.

As mentioned above, three projects required the architect/engineer (A/E) design firm to rework construction documents for a second bid. Minnesota State Colleges and Universities' standard design contract requires the A/E to provide additional design services at no additional fee should it become necessary to rebid projects that come in over budget.

Staff will continue to monitor bid results closely while providing oversight to the design and bidding process. Consultation with industry experts is ongoing to determine corrections that may have to be made in project scope, and construction materials and methods for 2005 projects in the execution phase as well as those in the 2006 capital budget. As of this date, however, no further guidance has been published by the Department of Finance that would suggest further changes in the 2006 capital budget submission due to inflation and other construction cost factors.