TO: Capital Development Committee

FROM: Kori Donaldson, Principal Research Analyst, 303-866-4976

SUBJECT: Shepardson Building Intercept Approval

August 27, 2019

Summary

This memorandum details one intercept project submitted by Colorado State University (CSU), which is pending approval by the Capital Development Committee (CDC). It also summarizes the approval process for projects financed through the state’s Higher Education Revenue Bond Intercept Program (intercept program).

Colorado State University Intercept Projects

CSU has submitted one project to the CDC for review and approval under the intercept program. The project previously received state- and cash-funded appropriations for FY 2018-19 and FY 2019-20. CDC approvals to date have authorized cash funds spending authority on behalf of the project, but have not explicitly authorized participation in the intercept program. The FY 2019-20 staff budget analysis of the project is attached for your reference.

The maximum amount of intercept bonds CSU seeks to issue for the project is $9.0 million. CSU anticipates that the intercept bonds will be issued for a term of 30 years at an interest rate of 4.0 percent. The maximum debt service payment is anticipated to be about $464,000 per year.

CDC Action Required

Approve the use of the intercept program for the cash-funded component of the Shepardson Building Renovation and Addition.

Borrowing under the State Intercept Program

The intercept program allows the state to make necessary payments of principal and interest on revenue bonds, if needed, on behalf of a participating state-supported higher education institution. Under the program, an institution is permitted to bond for projects using the state’s credit rating, which typically results in cost savings for the institution.
In order to participate in the program, an institution must meet certain requirements regarding its credit rating and its debt service coverage ratio. An institution must have a credit rating in one of the three highest categories from a nationally recognized statistical rating organization, without regard to modifiers within a category. If more than one organization has rated an institution, none of the ratings can be in a category below the three highest categories. An institution must also have a debt service coverage ratio of 1.5, measured by dividing net revenue available for annual debt service by the total amount of annual debt service plus the annual debt service to be issued.

The requirements to participate in the intercept program are established in law and verified by the Office of the State Treasurer in a report published by September 1 of each year. The 2019 report will be presented to the CDC during its September 4 meeting. The report itemizes the following for each state-supported higher education institution:

- the most recent credit rating or ratings;
- the debt service coverage ratio;
- the total amount of intercept bonds issued, including the anticipated payment schedule; and
- the total amount of revenue bonds issued, including the anticipated payment schedule.

Based on this report, the State Treasurer issues an annual preapproval certificate to each governing board that meets the statutory requirements to participate in the intercept program. The preapproval certificate includes the total amount of intercept bonds that a governing board may issue in the next year. An institution is required to receive certification from the State Treasurer that it qualifies to participate in the intercept program prior to submitting a proposal to the CDC for review and approval. Any proposed new borrowing under the state intercept program is subject to approval by the CDC and the Joint Budget Committee (JBC), regardless of the cost of individual projects.
Fiscal Year 2019-20 Capital Construction Request
Colorado State University
Shepardson Building Renovation and Addition

PROGRAM PLAN STATUS

Approved Program Plan?  Yes  Date Approved:  October 3, 2016

PRIORITY NUMBERS

Prioritized By  Priority
Deptinst  1 of 6
CCHE  3 of 40
OSPB  5 of 62  Recommended for funding.

PRIOR APPROPRIATION AND REQUEST INFORMATION

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PROJECT STATUS

This is a continuation request. Please note that the request was submitted in each of the last two years as a three-phase request and in both years the Governor's Office of State Planning and Budgeting (OSPB) directed the university to revise the request to two phases. Attachment A shows the revised totals as recommended by OSPB. The staff analysis reflects the budget request as originally submitted by the university. See the Staff Questions and Issues section for further explanation.

PROJECT DESCRIPTION / SCOPE OF WORK

Colorado State University (CSU) is requesting state funds and cash funds spending authority for the second phase of a two- or three-phase project to renovate the existing 46,811-GSF Shepardson Building, which houses the Departments of Horticulture and Landscape Architecture, and to construct additions to the north and south of the building totaling 47,998 GSF. The project creates a new floor plan in the building and installs modern architectural finishes. It also replaces all existing mechanical, plumbing, electrical, and telecommunication systems. The existing building will house a new Student Success Center, computer labs, offices, studio space, and the Dean's office. The additions will construct classrooms, laboratories, offices, a library, and a large auditorium. The university says that enrollment in the programs housed in the building is currently restricted due to space limitations and the outdated

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condition of classrooms, studios, and labs.

Cost assumption. The cost assumption was determined by a third-party consultant. The cost per GSF is $456. The project cost accounts for future inflation at rate of 5 percent a year. The project meets the Art in Public Places and High-Performance Certification Program requirements.

PROJECT JUSTIFICATION

According to the university, the age and condition of the existing building limits program growth, the functionality of the research and teaching laboratories, and the types of instructional methodologies used. The newly renovated building and additions will address a demand for increased enrollment in agricultural science programs. It will also construct a Student Services Center and collaborative work space to create a home base for students enrolled in agricultural science programs campus wide. The university says there is a documented need for more trained professionals in agricultural industries. CSU cites data published in 2015 by the U.S. Department of Agriculture, which state that about 60,000 highly skilled jobs are created in the U.S. agricultural industry every year, and that there are not enough trained professionals to meet this demand. The university says the project will help it to meet challenges related to the safety, security, and sustainability of agricultural ecosystems.

The project will change the floor plan of the existing building in order to address some of the limiting factors of the building's original construction, such as narrow corridors, which prohibit the expansion of existing classrooms. Also, the floor-to-floor height of the building is not sufficient to improving ventilation in the laboratories. Other concerns exist with building systems. The building is not fully air conditioned, which causes discomfort for building occupants and is problematic for some of the research conducted in research labs, and the building is still heated by its original steam radiator system. The building's most recent Facility Condition Index (FCI) score is 38. The FCI rating is a ratio of a facility's deficiencies compared to its current replacement value on a scale of 100. Generally speaking, FCI rating assumes a life span of 100 years for a building and, if left untouched, a building loses about one point in its FCI rating each year. The Office of the State Architect's target rating for state buildings is 85.

Project alternatives. The university identified project alternatives early in the program planning process. CSU determined that solely renovating the building would not meet its space needs or make the desired upgrades to programmatic space. It also considered building a new facility on the site. This alternative would require the demolition of an existing, structurally sound building and would cost 25 percent more per GSF than the proposed addition and renovation of the existing facility.

PROGRAM INFORMATION

The mission of CSU's College of Agricultural Sciences is to provide undergraduate and graduate education, basic and applied research, and public education related to agricultural, ornamental horticulture, and equine industries. The Shepardson Building, located on the university's main campus, was constructed in 1938 and has received only minor renovations since its opening. It currently houses the Departments of Horticulture and Landscape Architecture; agricultural career and internship services; college-sponsored student leadership activities; student computer labs and information technology support; the Dean's office; the Colorado Seed Testing Laboratory; and the Soil Morphology Program in the Soil and Crop Sciences Department.

CSU is currently ranked in the top 25 universities for agricultural studies by QS World University Ranking.

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PROJECT SCHEDULE

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SOURCE OF CASH FUNDS

The source of cash funds is proceeds from bonds that will be issued under the Higher Education Revenue Bond Intercept Program, pending further legislative review and approval by the Capital Development Committee. The bonds will be repaid from university funds.

OPERATING BUDGET

Operating expenses are paid from institutional sources. CSU says that similar renovation projects have decreased electrical use by 25 percent and water use by 50 percent in existing space.

STAFF QUESTIONS AND ISSUES

1. Does the university have a preference as to whether the project is presented as two- or three-phase? Either way, the staff analysis will make a note of the approach and any discrepancy either from the original submittal by CSU or the revised submittal requested by OSPB.

CSU would prefer a two-phase project. Since the first submission we have developed a strategy to vacate the existing building, relocating faculty and staff to other facilities recently identified. The original planning for the project had staff remaining in the building while we built the addition (phase 2). Then they would move into the addition while the renovation occurred (phase 3). This was less than ideal for the building occupants and the overall project. Benefits of the revised phasing include:

- In vacating the existing building in its entirety, the renovation scope can be combined with the building addition scope to accommodate enhanced efficiencies for design-build activities.
- With construction funding in one phase we anticipate we will see a reduction in overhead and manpower costs with more efficient trade stacking and associated work flows.
- We expect that fees that to complete the work, as well as the cost of current construction market escalation, will be significantly reduced.

These savings will be plowed into better quality specifications for mechanical, electrical, and plumbing systems to produce lower operating and maintenance costs over the new lifecycle of the building. CSU will be able to reduce the duration of the disruption to current faculty and staff by 6 – 8 months.

If a change to two phases is not approved, CSU requests the ability to escalate each phase.

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