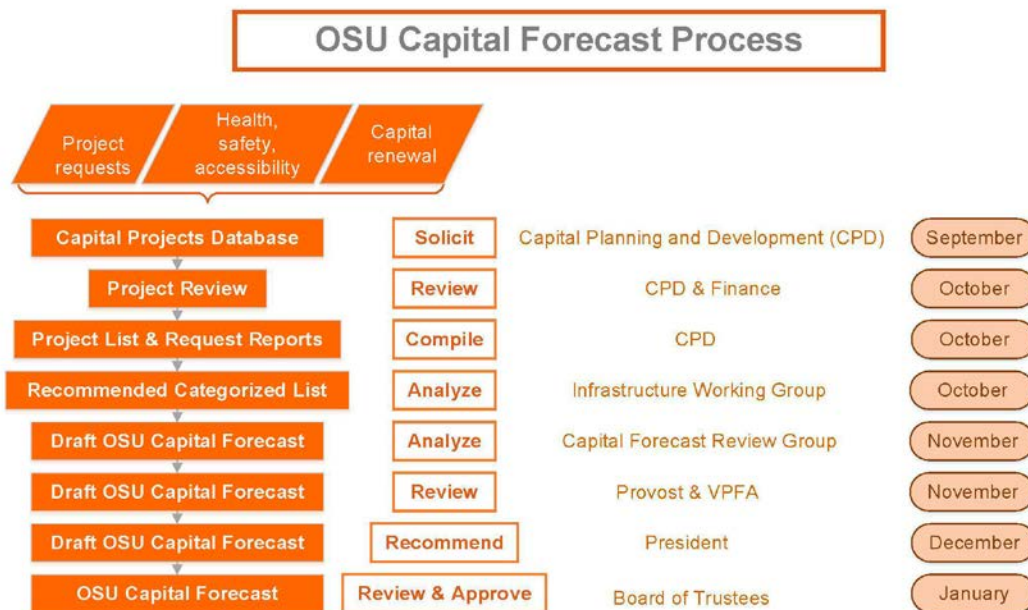


Capital Budgeting Process

What is a capital project?

A capital project is identified as a major asset (value of \$100,000 or greater) that has a useful life of more than one year. Typical examples of major assets are land improvements, buildings, building improvements, and infrastructure.

What is the process for getting a capital project on the list (aka the capital forecast)?



The Infrastructure Working Group is charged with reviewing and prioritizing major capital projects (over \$5M). Projects are assessed on how they advance the University's and HECC's strategic priorities, how they leverage other resources such as gifts, whether they are financially viable (considering the total construction and operating costs), and whether they resolve critical life safety, compliance or accessibility needs. Capital Planning and Development is responsible for prioritizing smaller capital projects, particularly those that address deferred maintenance issues.

How much does a capital project cost?

There are a lot of factors that go into determining the cost of a capital project: the size of building, the types of space in the building, the costs of financing, the design and management of the project, any remediation or special site studies, etc. etc. There are capital project costs that are often forgotten or hard to estimate in the planning phase:

- OSU Foundation administration fee for gift funds – 5%
- Stewardship funding requirement for a building's future maintenance and repair – 10%
- Project Management Fee – Capital Projects & Development assessment
- New projects long-term operations & maintenance funding paid from the general fund of the university - \$9.70 square foot (May 2018)
- Furniture – Is this expense in the project plan or will it be funded separately?
- Does the project require any extraordinary environmental studies or require examination by an external group(s) that may delay the project?

The project also has costs once it is done---custodial services, insurance, repair and maintenance, depreciation, financing charges---all of which need to be assessed as part of full-cost planning for the project.

How do you pay for capital projects?

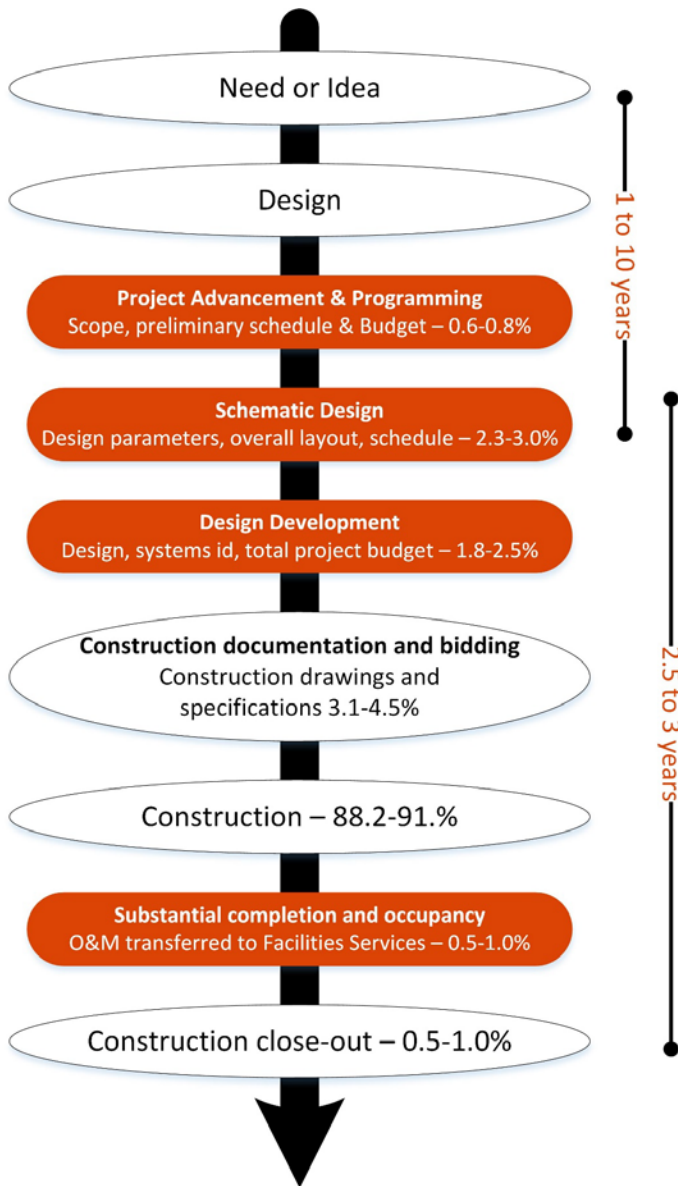
Capital projects are paid for from a variety of sources, many of them from funds other than Education and General operating funds. Gifts from private donors and bonds sold by and paid for by the State of Oregon pay for capital projects entirely outside the operating budget. State bonds can include Article XI-G bonds (require a match from the university), Article XI-Q bonds, Lottery Bonds, or State Energy Loan Program funds. The University can also choose to sell bonds (revenue bonds) and pay those back out of operating revenues (either E&G or self-support). These revenue bonds are backed by a general or specific revenue pledge of the university. Requires OSU to obtain and maintain a positive credit rating. Repayment is made from pledged revenues. No legislative action required but requires Board of Trustees approval. The university (or units in the university) can also commit cash reserves, building use credits, or other sources of one-time funds (remembering there are ongoing operating costs incurred with any new buildings). The university can also make internal loans as part of its cash management through the Internal Bank if there is sufficient cash capacity.

What are the steps and how long does it take?

This can depend on the complexity and cost of a project, the timing of funding sources (the state approves bonds in the spring of odd years usually, but does not sell the bonds until two years later at the end of a biennium), issues with the site or local governments, and a host of other things. There are some steps common to projects though (figure to the left).

Once something is on the capital forecast, has funding secured, and has all the approvals, the time from schematic design to move-in will be 2.5 to 3 years. The idea, assessment and feasibility stage can take a lot longer as projects evolve, donors are sought, stakeholders are engaged, and strategies evolve.

As an example, the costs are summarized for Johnson Hall in the table below.



JOHNSON HALL	
	Original Budget
Direct Costs	\$ 33,554,497.73
OSU Activities	344,884.61
Permits & Fees	767,302.32
Equipment & Furniture	382,019.14
Professional Services	4,951,296.20
Total	\$ 40,000,000.00
Funding: 2015, XI-G Bonds of \$20M and Gift of \$20M	
Building Square Feet: 60,000	
Annual Operation & Maintenance Costs: \$582,000 (maintenance, utilities, custodial, etc.)	