

Governor's FY 2015 Budget – Requested Amendments: Higher Ed Capital

Staff Presentation to the House Finance
Committee
May 29, 2014

Governor's FY 2015 Budget

- Governor's budget includes \$200.1 million under Public Corporation Debt Management Act
 - Information Technology
 - Virks Building Renovation
 - Historic Structures Tax Credits (Art. 15)
 - T.F. Green Improvements
 - Garrahy Courthouse Parking

Public Corporation Debt Management Act (Kushner Act)

- Enacted in 1994
- Subsequently amended to increase Assembly's approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner

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Governor's FY 2015 Budget

- Governor requested 2 amendments that partially or totally fall under the Act
 - URI Electrical Substation
 - Nursing Education Center
 - House Bill 8220 introduced on May 21

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URI Electrical Substation

- Authorizes improvements to Kingston Campus electrical substation
- \$7.2 million from revenue bonds
- Annual debt service of \$0.6 million
 - Supported by general revenues and tuition and fees
 - 20 years & 5.0% interest
- Total cost would be \$11.5 million

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URI Electrical Substation

- Substation #1 was installed in 1954
- Substation #2 was installed in 1972
 - Service life generally 20 - 25 years
- Supply power to:
 - Main academic/research areas
 - Majority of housing and residential life sector

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URI Electrical Substation

- URI requested \$1.7 million from asset protection funds and \$5.3 million from revenue bonds for FY 2014 - FY 2016
- Project priority was ranked 26 out of 47
- Governor shifted start date to FY 2017 based on priority of project

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URI Electrical Substation

- University indicated to staff in March that the project had become a higher priority
- Board of Education approved issuance of revenue bond financing on April 14

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URI Electrical Substation

- URI explored option of doing this project as part of an energy performance contract
 - Determined that it would not qualify as there is no anticipated reduction in energy consumption to yield cost avoidance

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Nursing Education Center

- History of project
 - Feasibility study
- Current proposal
 - Summary of costs

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History of Project

Request	Size (sq.ft.)	Location	Cost (millions)
FY 2007	50,000	URI	\$25.0
FY 2009	20,000	URI	\$30.0
FY 2010	50,000	URI	\$50.0
FY 2011*	53,000 80,000	RIC URI	\$30.2 \$50.0
FY 2013	120,000	Shared	\$65.2
FY 2015	120,000	Shared	\$57.4

*Governor amended proposal to a shared facility

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History

- FY 2007:
 - URI requests \$25.0 million from new GO bonds for 50,000 sq. ft. building for Nursing & Associated Health
- FY 2009:
 - Governor recommends placing \$30.0 million on November 2012 ballot

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History

- FY 2010:
 - \$50.0 million for 50,000 sq.ft. building on 2010 ballot
 - \$20.0 million and 30,000 sq.ft. more than approved plan
 - Assembly provided \$3.0 million from RICAP for FY 2014 to begin project but did not place project on ballot

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History

- FY 2011:
 - RIC requested \$30.2 million for new 53,500 sq. ft. nursing/life sciences complex
 - Governor requested amendment for \$60.0 million for new shared nursing building in Providence for URI and RIC
 - Assembly provided \$175,000 from RICAP for feasibility study

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Feasibility Study

- Feasibility study to include:
 - Enrollment projections
 - Operating costs
 - Space sharing
 - Governance plans
 - Comparison to alternate plans for separate facilities
- Study was completed May 23, 2011

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2011 Study Findings

- Costs for shared building in Providence's "knowledge district" are less expensive than constructing separate buildings
- Report looked at:
 - 2 separate buildings
 - 1 building on I-195 land – state funding
 - 1 building on I-195 land – private developer
 - 1 building – private developer on private land

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2011 Study Findings

- Nursing Education building plus enhancements to nursing facilities on each campus would:
 - Resolve insufficient facilities
 - Save state \$18 million in construction costs compared to 2 new buildings
 - Upgrade programs with state-of-the-art equipment

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2011 Study Findings

- Double number of highly skilled nursing graduates by 2020
- By 2019, URI would grow its undergraduate nursing enrollment to 925 students, 32% increase from 701
- RIC's would grow to 820 students, a 76% increase from 466

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2011 Study Findings

- 2007 Lifespan's labor forecast projected vacancy of 1,281 registered nurses by 2025
- 2010 Lifespan labor forecast reported 947 vacancies in 2025
- Economic downturn:
 - Registered nurses moving from part-time to full-time
 - Delaying retirement
 - Fewer overall jobs

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Post-2011 Study

- 2012 Governor's Workforce Board Healthcare Industry Partners projected 354 vacancies in 2030

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Current Project

- FY 2013: Governor recommended \$65.2 million of new GO bonds for November 2012 ballot
 - Testimony before HFC: Administration exploring alternate proposal for state to partner with a private developer
- Proposal not formally submitted thus no Assembly action

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Current Project

- 2012 Assembly:
 - \$2.0 million from RICAP to renovate existing nursing facilities at URI
 - \$50.0 million of new GO bonds for RIC
 - Academic buildings including renovation and expansion of health and nursing facilities
 - No action on shared space

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Current Project

- FY 2013: URI & RIC began discussions with private developer and Brown University to convert South Street Power Station into jointly occupied building
- 2013 Assembly passed resolutions encouraging and supporting the efforts of the Board of Ed. and DOA to locate a shared nursing facility

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Current Project

- FY 2015 request: \$57.4 million for 120,000 sq.ft. shared building
- Legislation not included in Governor's budget but administration indicated plan was in the works and would be presented to Assembly once completed

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Current Project

- March 11, 2014 – State Properties Committee voted on request from DOA and Board of Education seeking permission to negotiate a lease
- May 12, 2014 - Board of Education approved plan

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Current Project

- Approval still needed from:
 - State Properties Committee
 - General Assembly
- Assembly must approve authorization of debt and lease agreements
- This project includes both

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Current Project

- Authorizes URI/RIC to enter into a 15-year lease with 2 year optional extension
- Occupancy planned for July 2016
 - No lease payments/fiscal impact until possession – FY 2017
- 132,449 sq.ft. of space on 1st and 2nd floor (49% of total space)
- Brown University will occupy 51%

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Summary of Costs

Items	Term (yrs)	Annual Cost**	Limit
Rent			
Base	15*	\$1,855,000	\$34,641,000
Tenant Improvement	15	\$2,491,000	\$25,500,000 plus interest
Additional	15*	\$1,689,000	none
Total Rent		\$6,035,000	
Equip/ Furnishings	10	\$1,497,000	\$14,950,000
Total		\$7,532,000	

*Option for two additional years

**Year 1 - 5

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Summary of Costs

- Debt service payments for base and tenant improvement rent structured like GO bonds
 - Paid solely from general revenues
- Additional rent would be paid from tuition and fees and general revenues like other unrestricted higher ed debt

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Base Rent

- Developer's cost of core building design, renovation and construction expenses
- Minus federal and state tax credits
- = base rent: \$1.9 million/\$14 per sq.ft.
 - Increases in years 6 and 11 of lease

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Base Rent

Base Rent (in millions)	
Construction Costs	\$72.9
Liens	2.5
Heritage Harbor	4.3
Legal and organization	2.1
Financing	4.5
Insurance, property taxes	0.9
Burying power lines	10.0
Developer's fee	10.3
Acquisition costs	8.0
Total Costs	\$115.4

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Construction Costs	
A&E	\$4.8
Construction	64.8
Contingency	3.3
Total	\$72.9

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Base Rent

Total Costs (in millions)	\$115.4
Federal tax credits*	(18.5)
State tax credits*	(22.7)
Museum debt elimination	(0.3)
Deferred developer's fee	(5.2)
Net Cost	\$68.7
State Share (~49%)	\$33.9
Brown Share (~51%)	\$34.7

*Tax credits available on \$80.9 million of costs

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Base Rent

- Lease includes the maximum cost
- 50% of any savings accrue to state and Brown as a credit against rent
 - Same split
- Each entity has option to purchase, as a condo unit, at fair market value during year 6 and at end of year 12
 - Method of determining fair market value is still being negotiated
 - No option at end of lease

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**Year 1 - 5

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Tenant Improvement Rent

- Developer's cost of financing, design and construction
- Minus federal tax credits
- = tenant improvement rent
 - \$2.5 million
 - 15 year term
 - Assumes 5.5% interest but no cap on rate or total
 - Risk on total cost

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Tenant Improvement Rent

Tenant Improvement Rent (in millions)	
Construction Costs	\$21.9
Permits/Fees	0.4
Design & Testing	2.3
Financing Costs	2.2
Contingency	3.8
Total	\$30.6
Federal Tax Credits (on \$27.5)	(5.2)
Total Net Cost	\$25.4
Annual Cost – 15 years	\$2.5

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**Year 1 - 5

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Additional Rent

- Operating costs such as security, janitorial, HVAC, lighting, etc.
 - Includes PILOT
- = additional rent: \$1.7 million
 - Adjusted annually – no overall cap
 - Paid by URI and RIC
 - General revenues, tuition, fees

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Additional Rent

Additional Rent (in millions)	
Utilities	\$0.4
Repairs & Maintenance	0.3
Cleaning	0.2
Landscaping & Grounds Maintenance	0.1
Security	0.3
PILOT agreement with Providence	0.2
Property Management Admin	0.3
Total	\$1.7

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**Year 1 - 5

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Equipment/Furnishings

- Equipment=
 - Lease/purchase financing of technology, equipment, fixtures and furnishings
 - Certificates of Participation
 - 10 year term, 7% interest, capped at \$15.0 million

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Equipment/Furnishings

- Other options to finance
 - Direct appropriation
 - Matched fundraising
 - Required fundraising has been element of projects in the past

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URI Unrestricted Budget

(in millions)	Debt Service	Total Budget	Share
FY 2012	\$19.3	\$347.2	5.6%
FY 2013	\$25.3	\$354.0	7.2%
FY 2014 Gov. Rev.	\$25.9	\$367.5	7.1%
FY 2015 Gov. Rec.	\$26.6	\$383.4	6.9%
FY 2016*	\$35.3	\$392.2	9.0%
FY 2017*	\$36.5	\$402.0	9.1%

*Estimate assumes total budget grows at CPI

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RIC Unrestricted Budget

(in millions)	Debt Service	Total Budget	Share
FY 2012	\$4.7	\$111.8	4.2%
FY 2013	\$5.7	\$115.1	4.9%
FY 2014 Gov. Rev.	\$6.2	\$115.8	5.3%
FY 2015 Gov. Rec.	\$6.8	\$120.4	5.6%
FY 2016*	\$6.6	\$123.2	5.4%
FY 2017*	\$6.5	\$126.3	5.1%

*Estimates assume total budget grows at CPI

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Parking

- Article silent on parking
- Supporting documents
 - URI/RIC: 200 spaces
 - Brown: 200 spaces
 - Developer: 250 spaces
 - Spaces to be rented at market monthly rental - \$125 - \$150/month
 - \$50,000 to \$60,000 a month
 - \$0.6 million to \$0.7 million annually

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Operations

- Proposal does not merge programs
 - Programs maintain separate identities
 - Share space and equipment
 - Share governance
- State will own equipment, furnishings and fixtures

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Related Issues

- Developer is also constructing:
 - 220-bed student housing units
 - 650 space parking garage
 - Both will be privately financed and owned

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Cost Comparison

(in millions)	Feasibility Study (2011)	Feasibility Study (2014)*	Current Proposal
Building Costs	\$67.3	\$71.3	\$72.0
Annual Debt Service (rent/equipment)	\$6.1	\$6.5	\$7.5
Total Cost	\$125.0	\$132.5	\$ 115.7
Term of lease	25 years	25 years	15 years

* Assumes 2% annual inflation

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