

## **Capital Project to Adjust the Student Wellness Improvements Authorization**

### **JOINT FINANCE AND RESOURCE MANAGEMENT COMMITTEE AND BUILDINGS AND GROUNDS COMMITTEE**

**September 30, 2018**

In November 2017, the Board of Visitors approved a \$63 million capital project authorization to develop a facility solution to meet expectations for student counseling services, student health services, and expanded fitness programming. This approved solution was based on a feasibility study and envisioned a complete renovation and refurbishment to modernize War Memorial Hall, constructing a 60,000 gross square feet addition to War Memorial Hall, and minor renovations to McComas Hall.

Cost estimates obtained in April 2018 during schematic design reveal the cost had reached nearly \$72 million, or \$9 million over the authorized project budget. This cost is not affordable and the associated scope did not include adequate renovation improvements to War Memorial Hall. The central causes of the overrun are excessive costs for the demolition and construction related to the addition to War Memorial Hall. The university established a team from Student Affairs, the Provost Office, the Office of University Planning, Capital Construction and Renovations, and Finance to work with the Architecture and Engineering firm to develop a solution to achieve the intent of the originally authorized project for a cost that does not exceed the originally authorized \$63 million.

The team identified a creative solution to provide space for all of the programmatic needs and to ensure renovations and refurbishments to War Memorial Hall and McComas Hall are completed to the level envisioned. The proposed solution is described below.

- The costly addition to War Memorial Hall will be removed from the project, which will reduce total costs by \$20 million lowering the cost estimate from \$72 million to \$52 million.
- Occupants slated for the addition will be housed in the existing War Memorial Hall envelop with a creative space renovation plan. Absorbing these units and completing renovations to the overall building at the level envisioned has an estimated cost of \$6 million, bringing the revised cost estimate to \$58M.
- A primary occupant of the addition, the Cook Counseling Center, will be shifted to a new facility adjacent to campus in an optimal environment for coordination of prevention, educational intervention, and treatment services. The new facility will incorporate a long-term lease with the Virginia Tech Foundation at a net present value of \$5 million.
- The renovations to the area vacated by counseling services in McComas Hall to accommodate expansion of student health services remain, as expected.

Under this plan, the renovations to both War Memorial Hall and McComas Hall will be accommodated with the existing capital project authorization at a reduced budget of \$58 million and the space associated with the Cook Counseling Center will be housed with a \$5

million capital lease with the Foundation. Thus, the total project costs for the entire program remains at the originally authorized amount of \$63 million.

The original funding plan for the \$63 million of project costs includes debt serviced from Student Health and Recreational Sports auxiliaries and an internal lease for the School of Education program. The revenues designated to support debt service on the \$63 million remain intact with a portion shifted to cover a \$5 million capital lease and the balance covering \$58 million of debt. Consistent with the original plan, any cash designated for the project accumulated prior to the issuance of permanent debt may be used directly for project costs and to lower the estimated total debt issuance. Temporary financing will be secured to cover project costs until permanent debt is issued.

Under the 2006 Management Agreement between the Commonwealth of Virginia and the university, the Board of Visitors has the authority to approve the budget, size, scope, debt issuance, and overall funding of nongeneral fund capital outlay projects, including capital leases. This request is to adjust the capital project budget to \$58 million to renovate War Memorial Hall and McComas Hall and to authorize a \$5 million capital lease for the Cook Counseling program.

## **RESOLUTION TO ADJUST THE STUDENT WELLNESS IMPROVEMENTS PROJECT AUTHORIZATION**

**WHEREAS**, the Board of Visitors approved a \$63 million capital project at its November 2017 meeting to develop a facility solution to meet expectations for student counseling services, student health services, and expanded fitness programming; and,

**WHEREAS**, the approved scope includes renovations to War Memorial Hall, constructing an addition to War Memorial Hall, and renovations to McComas Hall; and,

**WHEREAS**, the university has developed a revised solution for the programs that calls for a \$58 million capital project to renovate War Memorial Hall and McComas Hall and a \$5 million capital lease to house the Cook Counseling program; and,

**WHEREAS**, the \$5 million capital lease will be with the Virginia Tech Foundation at a rate sufficient to retire the debt and financing costs and cover normal operating expenses; and,

**WHEREAS**, the revenues designated for debt service on the original \$63 million project remain intact with a portion shifted to cover a \$5 million capital lease and the balance covering \$58 million of debt; and,

**WHEREAS**, under the 2006 Management Agreement between the Commonwealth of Virginia and the university, the university has the authority to issue bonds, notes or other obligations that do not constitute State tax supported debt; and,

**WHEREAS**, the Finance and Resource Management Committee will further review and approve a financing resolution prior to securing permanent financing for the debt component of the project plus amounts needed to fund issuance costs, reserve funds, and other financing expenses; and,

**WHEREAS**, under the 2006 Management Agreement between the Commonwealth of Virginia and the university, the Board of Visitors has authority to approve the budget, size, scope, debt issuance, and overall funding of nongeneral funded major capital outlay projects, including capital leases.

**NOW, THEREFORE BE IT RESOLVED**, that the university be authorized to move forward with a \$58 million authorization for the Student Wellness Improvements project and to secure temporary short-term financing through any borrowing mechanism that prior to such borrowing has been approved by the Board, as applicable, in an aggregate principal amount not to exceed the \$58 million authorization, plus related issuance costs and financing expenses.

**NOW, THEREFORE BE IT FURTHER RESOLVED**, that the university be authorized to enter a capital lease with the Virginia Tech Foundation, not to exceed \$5 million, to house the Cook Counseling center.

### **RECOMMENDATION:**

That the resolution authorizing Virginia Tech to complete the Student Wellness Improvements project with a revised funding plan be approved.

November 5, 2018