



Minnesota
STATE COLLEGES
& UNIVERSITIES

FINANCE DIVISION

30 7TH ST. E., SUITE 350
ST. PAUL, MN 55101-7804

ph 651.201.1800
fx 651.297.5550
www.mnscu.edu

MEMORANDUM

Date: November 13, 2014

To: Board of Trustees

From: Laura M. King, Vice Chancellor - CFO *LMK*

Subject: Additional board report concerning Metropolitan State University construction project

Enclosed please find the Board report titled Metropolitan State University Construction Update. Please insert this report after page 82 in the Finance tab of the November board materials.

Thank you.

Enclosure

c: Cabinet
President Devinder Malhotra

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

ACTION ITEM
Metropolitan State University Construction Update

PURPOSE

To update the Board of Trustees on the ongoing major construction at Metropolitan State University, gain approval of updated project budgets, and provide a status update on a pending property acquisition action associated with the construction program.

BACKGROUND

Metropolitan State University’s master plan called for construction of a science education facility and the development of property bound by East 6th and 7th Streets and Maria and Bates Avenues on their St. Paul campus in support of growing upper-division program needs in the metropolitan area. The proposed property development included a multi-phase parking structure to support the university’s anticipated growth and be responsive to city requirements for science center occupancy and neighborhood needs; the addition of the university’s first student center; and a new science education center across the street from the parking and student center projects.

The board recommended capital funding of the science education center and the 2011 legislative session provided \$3.44 million for project design. Construction funding of \$35.9 million was provided in the 2014 capital bonding bill.

In late 2012, the board authorized, as part of a January 2013 issuance of revenue bonds, funds for construction of a parking ramp to provide sufficient parking capacity for the university’s science education center, and a student center. Estimated construction costs were \$17.6 million and \$11.6 million respectively. Initial construction schedules estimated parking ramp completion in the late spring of 2014 and the student center in the summer of 2015.

CITY AND NEIGHBORHOOD ACCOMMODATIONS

As the university progressed toward plan review and permitting with the city of St. Paul in the spring of 2013, it became apparent that both the city and neighborhood had concerns with the parking ramp and student center that were not fully addressed by the university’s designs. After several meetings between the university and city and community representatives failed to gain consensus, Laura King, Vice Chancellor – Chief Financial Officer and St. Paul City Council President Kathy Lantry brokered an agreement to conduct a series of facilitated

discussions starting in August 2013 to work through and address the various concerns and issues. Participants and expressed stakeholders in this process included individual neighbors and neighborhood groups, District Council leadership, City Council member Lantry, Mayor Coleman's staff, Representatives Sheldon Johnson and Alice Hausman, Senator Fong Hawj, Governor Dayton's staff, the system office and Metropolitan State University. Trustees were made aware of the concerns. Several trustees including then Chair Hightower and Trustee Vekich visited the site to orient themselves with the issues.

Agreement was reached on October 31, 2013 impacting facility siting, scope, and features for both the parking ramp and student center. Key points in the agreement were: relocating the student center to face East 7th Street to support city revitalization plans; relocating the parking ramp and reduced scoping to 700 stalls with entrances and exits moved to Bates Avenue and Maria Avenue via East 6th Street; limiting parking ramp height to 2 levels above grade along Bates Avenue; creating a pedestrian friendly environment on Maria Avenue by calming traffic between East 6th and 7th Streets; minimizing asphalt and maximizing green space on the remaining portions of the block; and studying options for improved traffic and pedestrian traffic controls at the intersections of Bates Avenue and East 7th Street and Bates Avenue and East 6th Street. Throughout these discussions, it was understood by all parties that three residential properties were slated for acquisition and the sites cleared.

This process and final accommodations impacted project schedules and costs. The parking ramp completion date was extended by nearly 7 months, the student center, 11 months. Total program costs increased by \$4.7 million. The parking ramp increased \$2.4 million, the student center \$640,000, and the estimate for Maria traffic calming was \$1.6 million.

These costs were planned to be accommodated through university general fund reserves and select project scope adjustments. Resources for the changed budget have been identified and assigned to the projects.

CONTAMINATED SOIL CLEAN UP

Parking ramp and student center construction required extensive excavation of the project site. On May 27, 2014, just weeks after the actual ramp construction had started, soil contamination was detected and a detailed sampling protocol was initiated. Results of the Phase I Environmental Study were completed in June showing levels of diesel range organics (DRO), trichloroethylene (TCE), and tetrachloroethylene (PERC) contamination beyond maximum allowable limits. This contamination is apparently the result of a vehicle maintenance function on the property that operated there from the 1920's to the 1960's. Mitigation scoping, planning, design, and coordination with Minnesota Pollution Control Agency (MPCA) was started. The impact is realized throughout the entire block with some migration into Maria also identified.

University leaders, system office staff, and representatives from Adolfson & Peterson Construction (A&P), Miller Dunwiddie architects, and Professional Service Industries, Inc. (PSI) environmental consultants met in late July to review and understand the required

mitigation measures, potential alterations to project scope and timing, and general magnitude of associated costs. Because of the contaminate concentration, excavated soils had to be removed, disposed of at an approved site, and replaced with clean backfill; a vapor barrier had to be installed between the soils left in place and the clean backfill, and a stormwater filtration system had to be redesigned. Design work and cost estimating continued through October 2014. Because of the dependence of the science education center on the parking ramp being available, excavation and construction continued during this period. The board was apprised of these issues at regularly scheduled committee updates and in briefings with Trustee Vekich who asked that the details be brought the Finance Committee once fully understood.

Staff now has high confidence that the upper limits of budget exposure are understood. Extensive testing has been completed, approvals for mitigation strategies obtained from the interested regulatory authorities and necessary project redesigns completed and cost estimated.

Responding to the soil contamination has impacted project schedules and costs. The parking ramp completion date is now June 2015, an addition of 5 months. The student center is also scheduled for completion in July 2015. Program costs increased by \$4.6 million after making scope adjustments. The parking ramp increased \$4.3 million due primarily to the extensive excavation and delays, the student center \$24,000, and the estimated increase for Maria traffic calming is \$280,000.

	Parking Ramp	Student Center	Maria Calming	Program Total
Costs/Expenses				
Original	\$17,605,000	\$11,604,982	N/A	\$29,209,982
Neighborhood Accommodations	\$2,449,820	\$642,247	\$1,640,788	\$4,732,855
Environmental Remediation, Delay and Adjustments	\$4,276,898	\$24,436	\$280,612	\$4,581,946
Current Cost Estimate	\$24,331,718	\$12,271,665	\$1,921,400	\$38,524,783
Change	+\$6,726,718	+666,683	+1,921,400	+\$9,314,801
Revenues by Source				
Original 2013 Revenue Bond Sale - Project	\$17,605,000	\$11,604,982	N/A	\$29,209,982
University general fund balances – grant			\$1,640,788	\$1,640,788
University general fund reserves – loan	\$2,024,000			\$2,024,000
2013 Revenue Bonds – system	\$1,594,000	\$100,000		\$1,694,000
University general fund reserves and balances - grant	\$3,108,718	\$566,683	\$280,612	\$3,956,013
Total Revenues	\$24,331,718	\$12,271,665	\$1,921,400	\$38,524,783

FUNDING STRATEGY

Community accommodations and environmental mitigation have had a major impact on Metropolitan State University's construction program budget. The total increase in cost is \$9.3 million (30%). The university initially provided \$3.6 million in general fund balances and reserves as grants and loans to the program. These were coupled with \$1.7 million in available revenue fund bond sale proceeds from the 2013 sale to address neighborhood accommodations and any potential changes. The contaminated soil remediation added an additional \$3.9 million in costs which will be serviced through the university's general fund balances and reserves.

The university has designated an additional \$2-2.5M of its remaining \$3.4M in current budget reserves to this purpose. It has also identified \$1.5M of other general fund balances that can be re-directed in support of the projects. Use of university reserves for this activity is consistent with board policy in so far as reserves are intended to be held and available for unforeseen events. The university intends to replenish its reserves over the next several years as a part of its annual operating budget planning process.

PROCESS CHANGES

The system has never before experienced a turn of events of such magnitude in the capital program. In response, project planning and coordination with the local community and environmental testing is a special interest item in the predesign process. There were several geotechnical evaluations of the site including, a parking lot expansion project in 2006; a lot rehabilitation and water filtration project in 2009; initial parking ramp studies; for residential acquisitions on the block perimeter, and preparation for the science education center construction; none uncovered the contamination experienced. Project practices have been revised, especially for urban sites, and assume contamination until disproved through an extensive environmental evaluation.

PROPERTY ACQUISITION UPDATE

To fully execute their development plans, the university undertook the acquisition of three properties located on the edge of the surface parking area already owned by the university. Properties at 381 and 387 Bates Avenue were secured early in the process.

In October 2013, the university entered into a purchase agreement with the sellers of the final property, 393 Bates Avenue. Unfortunately, the university learned that the seller had title problems with the property and was unable to deliver marketable title as planned. The university notified the seller of the title objections, and the seller informed the university that it would continue to work on correcting title to achieve a closing. The sale fell through.

At about the same time, the chair of the House of Representatives Ways and Means Committee, took interest in the transaction and conveyed concerns regarding pricing.

Following the legislative consultation, the university reengaged the seller in late December 2013 without success.

In March 2014, the board, finding the acquisition of 393 Bates Avenue necessary for the development needs of Metropolitan State University, authorized the chancellor to take actions to complete the acquisition via direct negotiation, settlement or the eminent domain process.

Since that time, system office and university staffs have worked to clarify outside title interest in the property through Veteran's Affairs offices, General Services Administration (GSA) and local and federal legislative contacts to facilitate a negotiated sale. This work has been unsuccessful.

System office and university staff are securing an updated appraisal of the property to make another offer and if unable to achieve a sale will present documentation to initiate eminent domain actions as early as January 2015.

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees finds construction of Metropolitan State University's parking ramp and student center necessary to the programs and mission of Metropolitan State University and authorizes new project budgets, specifically up to \$24.5 million to complete the parking ramp and \$12.5 million for the student center and up to \$2M for the Maria calming project. The chancellor or his designee is authorized to execute contracting actions necessary to deliver on the project scope and intent.

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Date Presented to the Board of Trustees: November 18, 2014