

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

Agenda Item Summary Sheet

Committee: Finance and Facilities

Date of Meeting: October 18, 2011

Agenda Item: Construction Project, Riverland Community and Technical College

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda: The Hormel Foundation is proposing to finance the renovation of 22,000 sq. ft. at the Riverland Community College for an early childhood education center that would be operated by a day care provider. The college seeks Board approval to continue working with the Hormel Foundation and eventually executing the necessary agreements to accomplish this project.

Scheduled Presenter(s): Brian Yolitz, Associated Vice Chancellor of Facilities
Terry Leas, President, Riverland Community and Technical College

Outline of Key Points/Policy Issues: The Hormel Foundation supplies funding to support the community needs in Austin, MN. The Foundation has identified the need for additional space for early childhood development and child care.

There is underutilized space in the west building at Riverland Community College which could be used for the day care location. The number of children served would increase from 190 to 300.

The approximately \$3 million project would be financed with a \$2 million grant from the Hormel Foundation and the Foundation coordinating matching grants from other community businesses and funding sources for the remaining capital need.

Background Information: The potential space is currently used for facilities storage and as a receiving/loading area for campus operations. The campus currently hosts KSMQ, a local public television station, and Apple Lane day care, in the west building. If a vendor such as Apple Lane is selected to run the expanded early childhood center, it would allow the college to reduce its underutilized space and operational costs, all without college or other public monies.

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

ACTION ITEM

Construction Project, Riverland Community and Technical College

REQUEST

The Hormel Foundation is proposing to finance the renovation of 22,000 sq. ft. at the Riverland Community College in Austin for an early childhood education center that would be operated by a day care provider. The approximately \$3 million project would be financed from a \$2 million grant from the Hormel Foundation and the Foundation coordinating matching grants from other community businesses and funding sources for the remaining capital need. The college seeks Board approval now to continue working with the Hormel Foundation and eventually executing the necessary agreements to accomplish this project.

BACKGROUND

Riverland Community College's updated facilities master plan identified areas of underutilized space on the Austin campus, primarily in the west building. Some of the underutilized space is attributable to consolidating programs and to mothballing special purpose space, such as high bay program areas. The college's leadership team sought to bolster overall utilization rates, which included the potential for a community partnership. In addition to academic programming, the campus currently hosts KSMQ, a local public television station, and Apple Lane day care, in the west building.

The Hormel Foundation is the philanthropic arm of the Hormel Corporation. One of its purposes is to supply funding to Austin area qualified organizations that will address community needs. One of the higher priority needs identified by the Hormel Foundation is for additional capacity in early childhood development and child care in the city of Austin. As the Hormel Foundation started publicizing the community need, college leadership offered the storage/receiving space on campus as a potential candidate for reuse as an early childhood/day care location.

The subject space is located on the far westerly side of the Austin campus's west building, and was formerly used for the Agricultural Diesel program. The space is currently used for facilities storage and as a receiving/loading area for campus operations. The space is located in what's known as building "D," although the building is attached to the west campus and not a stand-alone building. The current storage/receiving area shares approximately one-half of building D with the automotive collision repair program. An update to the former Agricultural Diesel space would be expected to remove up to \$1.15 million of deferred

maintenance in building D, and has the potential to reduce the overall building Facilities Condition Index (FCI) from 0.21 to 0.11.

The college currently leases space to Apple Lane Day Care to operate in the west building. An expanded early childhood education center will serve a greater number of children (from 190 to 300). If a vendor such as Apple Lane is selected to run the expanded early childhood center, it would allow the college to reduce its underutilized space and operational costs, all without college or other public monies.

CURRENT PROPOSAL

Improvements: The current 22,000 sq. ft. former agricultural diesel shop will be remediated, remodeled and renovated for an early childhood education center. The shop is currently being used by the college's Facilities department for storing grounds equipment and for receiving operations.

Costs: Current estimates predict a \$3.3-\$3.5 million renovation, including payment of prevailing wages. The cost of the project continues to be reviewed, discussed and revised.

Source of Funds: The Hormel Foundation has committed \$2 million to the project. In addition, the Hormel Foundation is coordinating donations from other community businesses and funding sources.

Design/Construction: The project will adhere to the system's design and construction standards. The Hormel Foundation has already undertaken preliminary schematic design and would be the lead party for ongoing architectural planning, construction project development, bids, and related activities. The college intends to engage the Foundation in constructing the improvements.

Use: The college will issue a Request For Proposals for a vendor to serve as the childcare provider in the new facility. The parties contemplate that the childcare provider will enter into a lease with the college for the newly improved space. The childcare provider will be responsible for paying all operating costs related to the building addition, including property maintenance, miscellaneous repairs, utilities, janitorial, and a reserve set aside. There may be opportunities for programmatic coordination between the child care provider and the college, although the college has not yet established an early childhood program.

Schedule: The Foundation anticipates a 6-8 month renovation schedule upon final approval to proceed.

The final determination of the legal participation of the various parties is yet to be finalized.

COLLEGE'S RISKS

Potential risks for the college accepting this capital-improvement opportunity and entering a lease with the childcare provider consist of five elements:

1. Upfront Financial Risk: The college could be at risk without a guarantee that adequate capital is available to complete the renovation. The Hormel Foundation has \$2 million committed to the project, and will require an additional \$1-\$1.5 million committed to renovate the building. Evidence should be provided that the Foundation has the resources to cover the expected total project cost, which is estimated to be as much as \$3.5 million.
2. Construction/Performance Risk: The college should ensure that the project adheres to the system's design and construction standards. The college is relying on the Hormel Foundation to manage the construction with oversight by the college. Given past use of the space, a high degree of environmental remediation may be required to bring it to a level that would allow day care use.
3. Tenant Risk: The college could be at risk of a tenant default and could be required to repurpose the space if operations are unsuccessful as an early childhood center.
4. Long-term / End of Use: Expectations are that this will likely be a long-term use of currently underutilized space. The college may need to retain the flexibility to reuse the space at the end of term or insert a new tenant if the selected tenant is unable to deliver the services as expected in the space.
5. Total Ownership Cost: The college intends to mitigate its financial risk to the extent possible. The college is not paying for the capital investment to renovate the space and is requiring the tenant to cover its own operating costs and reserves for repairs and replacement.

Staff will work with the college to assure the following conditions prior to final contracts:

1. The project shall adhere to all relevant system design and construction standards. Satisfactory evidence shall be provided to the system that the space has been remediated consistent with established standards to allow a day care use.
2. The Hormel Foundation shall provide satisfactory evidence of adequate capital funding to finance the full cost of the renovation.
3. No college or public monies will be used in the renovation or operations of this Project that would otherwise be provided by the Hormel Foundation grant or applicable day care tenant.

4. The college shall undertake a public bidding process to select a tenant with an appropriate financial and operational profile to successfully operate the early childhood center.
5. Execution of a lease agreement with a tenant to operate the new early childhood development center.

RECOMMENDED COMMITTEE ACTION:

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion:

The Board of Trustees approves this project with all documents to be reviewed by the Chancellor's designee prior to execution.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board of Trustees approves this project with all documents to be reviewed by the Chancellor's designee prior to execution.

Presented to the Board: October 18, 2011