

TITLE: Proposed Raze and Replace Asset Preservation Pool Project:
Somerset Community College, Laurel South Campus, Phases I and II

DESCRIPTION: CPE staff will present for Committee review KCTCS's request to use funds from the 2022-24 and 2024-26 Asset Preservation Pools to raze the Somerset Community College Laurel South Campus building and replace it with a new building at the Laurel North Campus. If approved, it would go before the full Council for final approval at the September 16, 2024, meeting.

STAFF CONTACTS: Ryan Kaffenberger, Director, Finance Policy and Programs
Bill Payne, Vice President, Finance Policy and Programs

SUPPORTING INFORMATION

KCTCS is requesting approval to use funds from the 2022-24 and 2024-26 Asset Preservation Pools to demolish the Somerset Community College, Laurel South Campus building and replace it with a new building located on Laurel North Campus. The institution is requesting approval to finance building design under Phase I of the project, using 2022-24 Asset Preservation Pool funds, at a total project scope of \$3,000,000. Additionally, KCTCS is requesting approval to fund demolition and construction costs under Phase II of the project using 2024-26 Asset Preservation Pool funds at a total project scope of \$30,000,000 (see KCTCS letter in Attachment A).

The proposed raze and replace project is a combination and modification of two projects previously approved by the Council as part of the 2022-24 and 2024-26 biennial budget requests. The 2022-24 budget request contained a project titled, "Renovate Laurel South Campus Phase I-Somerset CC," at \$6,000,000. The 2024-26 budget request contained a project titled, "Renovate or Replace Laurel South Campus Phase II-Somerset CC," at \$30,000,000.

Somerset Community College's Laurel Campus currently consists of four buildings: Laurel North Building 1, Laurel North Building 2, the Health Sciences building, and Laurel South Campus building. The Laurel South Campus building is separated from the North Campus buildings by approximately two miles (i.e., approximately a five-minute drive). KCTCS is proposing the Laurel South Campus building be razed and replaced with a new building located on the Laurel North Campus with the other facilities (see maps in Attachments B and C).

White Pollard Architects completed a study on September 1, 2023, estimating both the cost to renovate the Somerset Community College, Laurel South Campus building and the cost to construct a comparable new facility on the Laurel North Campus. The firm also provided an estimated cost to demolish the existing building on August 16, 2024. The cost to renovate the building was estimated at \$25,063,577. The cost to raze and replace was estimated at \$28,571,398 (see Attachments D). As such, the estimated cost to raze and replace the South Laurel facility does not exceed 115% of the estimated cost to renovate the building. Therefore, KCTCS' raze and replace request complies with the Council's 2022-24 and 2024-26 Asset Preservation Pool Guidelines.

The Laurel South Campus facility is currently home to multiple technical programs, including HVAC and welding programs, which are in high demand by industry in the area. KCTCS staff indicated that the replacement building would house the same programs and be designed to meet current technology and teaching space needs. Additionally, KCTCS staff anticipate the design of the new building will result in a more space-efficient facility that requires less square footage, thereby bringing the cost of the replacement building even closer to the estimated renovation cost. Furthermore, after demolition, the land that the existing facility is situated on will be returned to the local school board as a deed transfer.

ASSET PRESERVATION POOL GUIDELINES

In the *2022-24 Budget of the Commonwealth* (22 RS, HB 1), the Kentucky General Assembly authorized \$683.5 million in General Fund supported bond funds for a Postsecondary Education Asset Preservation Pool to provide funding for individual asset preservation, renovation, and maintenance projects at Kentucky public postsecondary institutions. In 2024-26, the General Assembly made another major investment in the renovation and renewal of existing postsecondary education facilities. The enacted *2024-26 Budget of the Commonwealth* (24 RS, HB 6) authorized \$563.0 million in General Fund supported bond funds for a Postsecondary Education Asset Preservation Pool to provide funding "for individual asset preservation, renovation, and maintenance projects at Kentucky's public postsecondary institutions in Education, General, and state-owned and operated residential housing facilities."

In each biennium, the General Assembly included language in the budget bill authorizing capital projects, as defined in KRS 45.750(1)(f), funded from the Asset Preservation Pools. Per KRS 164.020(11)(a), CPE is also required to "review and approve all capital construction projects covered by KRS 45.750(1)(f), including real property acquisitions, and regardless of the source of funding for projects or acquisitions." Furthermore, CPE, in collaboration with the Office of the State Budget Director, certifies that individual projects are eligible for Asset Preservation Pool funds. As such, on June 17, 2022, and June 21, 2024, the Council approved the *2022-24 Asset Preservation Pool Guidelines* and *2024-26 Asset Preservation Pool Guidelines* (the Guidelines), respectively, which specify the criteria institutions' capital projects must meet in order to be eligible for funding from the Asset Preservation Pools. The *2022-24 Asset Preservation Pool Guidelines* were revised at the June 21, 2024, Council meeting to incorporate new language, which was also included in the *2024-26 Asset Preservation Pool Guidelines*. At each of these

meetings, the Council delegated authority to CPE staff to review and approve capital projects submitted for Asset Preservation Pool funds to expedite the reimbursement process.

Both the *2022-24 Asset Preservation Pool Guidelines* and *2024-26 Asset Preservation Pool Guidelines* include an exception to the Council's delegation of authority to CPE staff for project review and approval. The Guidelines allow Asset Preservation Pool funds to be used for the demolition and reconstruction of a facility if the estimated cost to raze and replace does not exceed 115% of the estimated cost to renovate the facility and is certified in writing by an independent third-party industry professional. CPE staff is required to bring raze and replace requests to the Finance Committee and full Council, along with the certified cost estimates, for review and approval. Excerpts of relevant language from the guidelines are provided below:

- For the purposes of these guidelines, "facilities" includes buildings, building systems, and campus infrastructure, such as roads, walkways, electrical grids, steam tunnels, and water chiller plants, that support current and ongoing use of eligible facilities.
- Generally, new construction and expansion projects are not eligible to receive funds from the Asset Preservation Pool. However, under certain limited circumstances, as described below, use of asset preservation funds to finance new construction or expansion may be permissible.
- If it would be more cost effective to raze and replace rather than renovate an existing facility, then asset preservation funds may be used for demolition and reconstruction. For such a project to be considered cost effective, the cost to raze and replace may not exceed 115% of the cost required to renovate a facility. The cost of each option must be certified in writing by an independent third-party industry professional.
- It is anticipated that requests to raze and replace rather than renovate an existing facility will be infrequent occurrences. For this reason, CPE staff will bring such requests along with certified cost estimates from independent third-party industry professionals to the Finance Committee and full Council for review and approval.

RECOMMENDATION

KCTCS's request to raze and replace the Somerset Community College, Laurel South Campus building complies with the eligibility criteria contained in the Council's guidelines; however, the Guidelines do not specifically address whether funds can be used to demolish a facility and replace it with a new comparable facility at a different site. As such, CPE staff defers to the judgement of the Council with regard to the eligibility and approval of the Somerset Community College, Laurel South Campus raze and replace project.