

TITLE: Raze and Replace: Morehead State University, Normal Residence Hall

DESCRIPTION: The Finance Committee recommends the Council approve Morehead State University's request to approve to use \$10,200,000 from the 2024-2026 Asset Preservation Pool to raze the existing Normal Hall and replace it with a new building at the main campus.

STAFF CONTACT: Ryan Kaffenberger, Director, Finance Policy and Programs

COMMITTEE REVIEW & APPROVAL

The Finance Committee reviewed and endorsed for final approval the proposed revisions to the *2024-2026 Asset Preservation Pool Guidelines* and *2022-2024 Asset Preservation Pool Guidelines* as shown in Attachments A and B at its November 15, 2024, meeting.

SUPPORTING INFORMATION

Morehead State University is requesting approval to use funds from the 2024-2026 Asset Preservation Pool to demolish the existing Normal Residence Hall and replace it with a new residence hall with similar square footage located on the main campus. Normal Hall is both state-owned and -operated. The institution is requesting approval to finance building demolition and reconstruction using 2024-2026 Asset Preservation Pool funds, at a total project scope of \$10,200,000 (see Attachment A). The proposed project will construct the new residence hall first and then demolish the existing building to minimize disruption to students and campus operations.

Based on an assessment conducted by Schmidt Associates, renovating Normal Hall is estimated to cost approximately \$8,990,000. JRA Architects estimated the total cost to build a new Residence Hall, with similar square footage, and to raze the existing building at \$10,200,000 (see Attachments B and C). The MoSU Board of Regents approved up to \$10,200,000 for the Normal Hall raze and replace project using \$7,610,000 of the fiscal year 2024-2025 Asset Preservation Pool funds (\$5,000,000 of which will be reallocated from a previously approved project for renovating Normal Hall) and \$2,590,000 of the 2025-2026 fiscal year Asset Preservation Pool funds (see Attachment D).

The estimated cost to raze and replace the Normal Residence Hall does not exceed 115% of the estimated cost to renovate the building (i.e., \$10,338,500). Therefore, the raze and replace project complies with the Council's *2024-2026 Asset Preservation Pool Guidelines*. The new

hall will be approximately 35,000 square feet, multi-story, with a double-double (Jack and Jill) style bedroom and bathroom arrangement, and the possibility of a limited number of triple bedrooms (see Attachments B and C).

The *2024-2026 Budget of the Commonwealth* contain a project titled, “Renovate Normal Residence Hall Additional Reauthorization” at \$4,420,000 in agency bonds. The agency bonds authorized to support the Normal Hall Renovation project will not be issued if this request for asset preservation funds is approved.

ASSET PRESERVATION POOL GUIDELINES

In the *2022-2024 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 2024-2026, the General Assembly made another major investment in the renovation and renewal of existing postsecondary education facilities. The enacted *2024-2026 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 *2022-2024 Asset Preservation Pool Guidelines* and *2024-2026 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 *2022-2024 Asset Preservation Pool Guidelines* were revised at the June 21, 2024, Council meeting to incorporate new language, which was also included in the *2024-2026 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. Attachments F and G contain the Guidelines.

Both the *2022-2024 Asset Preservation Pool Guidelines* and *2024-2026 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

The Morehead State University request to raze and replace Normal Hall complies with the eligibility criteria contained in the Council’s *2024-2026 Asset Preservation Pool Guidelines*. As such, CPE staff recommends approve and endorse for full Council approval the Normal Hall Raze and Replace project as eligible to receive funds from the 2024-2026 Asset Preservation Pool.