

COMMITTEE ON FINANCE

California State University, Fresno – Conceptual Approval of a Public-Private Partnership for the Central Utility Plant Replacement Project

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Joseph I. Castro
President
California State University, Fresno

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This item requests conceptual approval for California State University, Fresno to pursue a development plan through a public-private partnership to replace the existing central utility plant.

Background

The central utility plant provides heating and cooling services to over 3.1 million square feet of building space, spread across 80 buildings and 1,011 acres. The plant, built in 1954, has had limited improvements over the past 65 years and its equipment and ancillary infrastructure have exceeded their useful life. Importantly, the plant lacks additional capacity to accommodate campus expansion and new buildings that are part of the 25,000 full-time equivalent student (FTE) campus master plan.

The condition of the plant has resulted in significant increases in operating and maintenance expenses over the past three years, and failure in plant operations is a constant threat. To assess the severity of these issues, an energy conservation study conducted by a consulting firm in 2017 outlined recommendations for phased like-for-like replacements of plant equipment in a similar location as existing equipment, and implementation of energy conservation measures in individual buildings across campus.

Additional assessment of a wide variety of finance and delivery methods concluded that a public-private partnership approach would accelerate delivery schedule and generate significant cost-savings over the life cycle of the project.

Project Description

The project plan is comprised of several major elements, including: the installation of new equipment in the current plant location; replacement of hot and cold-water distribution systems; an energy management and control system; and other energy conservation and efficiency measures throughout the campus facilities. The new plant equipment and distribution systems will operate at a higher efficiency, resulting in additional heating and cooling capacity, energy savings, decreased operating costs, and improved reliability. Overall, the project aims to significantly improve central plant reliability and allow for critical campus growth.

The campus intends to enter into a project agreement with a developer partner team, which will design, engineer, procure, finance, construct, maintain, and upgrade designated components of the project over the life of the agreement. Under the proposed agreement, the developer will be responsible for the routine and life-cycle maintenance of the designated project elements, and perform such maintenance in accordance with the technical requirements and standards set forth in the agreement, applicable laws, regulations, and policies. The campus will retain responsibility for the day-to-day operations.

The campus has completed a request-for-qualifications process and identified four development teams as potential partners. Selection of the final development partner team will be conducted through a request-for-proposal process following appropriate approvals from the Board of Trustees.

Financing

The preliminary project cost is currently estimated at a range of \$130 to \$170 million, however, the final cost will not be known until proposals are submitted and a development partner is selected. A portion of the project cost will be funded by the CSU Capital Outlay Program and campus contribution, however, the bulk of the project cost will be funded through alternative financing by the developer. In addition, the developer will be compensated for their investment and services relating to life-cycle maintenance through periodic performance-based payments by the campus over the term of the agreement, which is anticipated to be no greater than 40 years.

All proposed financing structures provided by the developer will be without recourse to the CSU. The agreement will retain the right for the campus to make future milestone payments to reduce the term of the agreement and provide system-wide capital outlay funding for certain elements of the project.

Educational Benefits

The project stands as the highest priority capital project for the campus. Growth of the campus is currently constrained, in part due to inadequate utility infrastructure to support existing buildings and future construction of buildings, severely limiting the ability to serve additional student enrollment. Upgrades to critical infrastructure will enable future campus growth and supports the overall campus master plan, programmatic goals, and education mission. Moreover, the project will place the campus on the right path toward achieving lower-carbon heating and cooling operations and complying with the Board of Trustees' policy on sustainability and the carbon reduction goal of 80 percent below 1990 levels by 2040.

Approval of the Final Development Plan

Per Board of Trustees policy, as the project moves forward, all related master plan revisions, amendments of the capital outlay program, proposed schematic plans, financial plans, and proposed key business points of the finalized development plan will be presented at future meetings for final approval by the Board of Trustees prior to execution of any commitments for development and use of the project.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the Trustees:

1. Approve the concept of a public/private partnership for the project at California State University, Fresno;
2. Authorize the chancellor and the campus, to enter into negotiations for agreements as necessary to develop a final plan for the public-private partnership as explained in Agenda Item 4 of the May 20-22, 2019 meeting of the Committee on Finance;
3. Will consider the following additional action items relating to the final plan:
 - a) Certification of Final California Environmental Quality Act (CEQA) documentation.
 - b) Approval of a development and financial plan negotiated by the campus and the developer with the advice of the chancellor;
 - c) Approval of an amendment to the Non-State Capital Outlay Program;
 - d) Approval of the schematic design.