Trustees receive report on five-year capital plan and approve borrowing authority

University Park, Pa. – The Penn State Board of Trustees Committee on Finance, Business and Capital Planning today (Sept. 19) received a report on Penn State's capital construction plan for the next five years. The University's new $2.7 billion capital plan will focus on renewal of existing facilities and systems. The plan provides strategic investments in new construction, plans for and provides for much needed facility renewal of an aging physical plant and provides for the replacement of obsolete enterprise information technology systems.

At University Park, 65 percent of buildings are more than 25 years old and have had no significant renovations. Many buildings' systems are beyond their useful life, and the buildings are not suited to 21st-century teaching or research. "This plan for the long-term protection of our physical assets is an investment in our future," said Ford Stryker, associate vice president for the Office of Physical Plant. "These improved facilities will better serve the teaching and research missions of the University and strengthen Penn State for years to come."

Immediate renovations at University Park include the renewal of multiple undergraduate laboratories and residence halls as well as key campus infrastructure, such as the water treatment plant and chilled water distribution. Projects also include upgrades to health and safety, mechanical systems, roofing and fire and life safety systems.

Penn State operates campuses across the state, so renewal allocations are being balanced to appropriately address the needs of each campus. Campus buildings will receive upgrades to their security/access controls, HVAC systems, roofing and wireless infrastructure. Aging infrastructure such as roads and utility systems will be covered as well.

The capital budget provides funding for facility and information technology investments. The capital budget is separate from the University's operating budget, which pays for the day-to-day operating costs of the University as it conducts its mission of teaching, research and outreach.

The current capital plan will be funded by money from many sources. Over the past several years, the University has accrued operational reserves through careful management. These reserves will be deployed to support pressing renewal needs. Some projects will be funded with borrowing, with the debt service coming from operating revenues or tuition. Self-supporting units such as the Hershey Medical Center generate operating reserves that are set aside for the capital investments. Additionally, Penn State has received $40 million in state funding for the past two years and has built the plan assuming that the state contribution will continue. Other sources include philanthropy, student facility fees and major maintenance reserves.

Approximately 63 percent of the plan funding will be spent on Education and General projects, and 18 percent will be devoted to Auxiliary and Business Services projects. A total of 16 percent is allocated for Hershey. Two percent will be set aside for important Energy Savings Program projects, and the small remainder will be dedicated to Intercollegiate Athletics.

While almost all the projects are to replace existing inadequate facilities, there is some allocation for new construction. Most of the new construction will be to replace existing obsolete facilities and for housing in strategic campus locations. Renovation projects will include an upgrade of East and Pollock Halls as well as Findlay Dining Hall at University Park.

Although projects are listed in the capital plan, their inclusion does not guarantee Board of Trustee approval. Individual projects are normally presented to the Board twice, and the Board selects the architect, approves final plans and authorizes construction unless it is a state-funded project.

A list of all projects in the five-year plan is available at www.opp.psu.edu/capital-plan.

The committee also voted to authorize the University to issue $750 million in debt. The plan includes $225 million for Education & General projects and $525 million for self-supporting unit projects.

The capital plan for the five-year period through 2018 calls for an additional $225 million of tuition-supported borrowing. The University's credit rating is Aa2 by Moody's and AA by Standard and Poor's. Both ratings reflect a very high-quality credit profile. The University commissioned two independent debt capacity studies to confirm that the debt level was prudent. Their analysis advised Penn State that the capital plan borrowing is well thought out and within judicious levels. Overall debt service is projected to stay slightly below 2 percent of operating expenses and is considered to be a conservative level by all measures.