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April 27, 2016

TO: Richard Dietrich, Chair, Senate Fiscal Committee

FROM: Bruce McPheron, Interim Executive Vice President and Provost 
Geoff Chatas, Senior Vice President for Business and Finance/CFO

SUBJECT: POM Rates for FY 2017 Approval

After discussing the recommended proposal for the POM Rates for FY 2017, we have approved the proposal for implementation in Fiscal Year 2017. If you have any questions, please contact Suzi Ballinger at ballinger.56@osu.edu.

cc: Kris Devine
Brad Harris
Lynn Readey
Scott Klute
Susan Ballinger
Senate Fiscal Committee



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April 19, 2016

TO: Bruce McPheron, Interim Executive Vice President and Provost
Geoff Chatas, Senior Vice President and CFO

FROM: Dick Dietrich, Chair *AKD*
Senate Fiscal Committee, 2015-2016

Subject: POM Rates for FY 2017

Please find attached the Senate Fiscal Committee's (SFC) recommendations for POM Rates for FY 2017 for your review and approval. The recommendations were discussed by the College Finance Subcommittee on March 26, 2016 and April 12, 2016 and subsequently by SFC at its April 19, 2016 meeting. SFC approved the recommended rates for FY 2017 as outlined in the attached resolution.

Please contact me if you have any questions about these recommendations.

c: Kris Devine
Brad Harris
Scott Klute
Susan Ballinger
Lynn Readey
Kristany Berger
Senate Fiscal Committee

Recommendations made by the CFS this week April 12.

1. Decision point #1. Request was to increase the utility surcharges by \$700,000 which was subdivided as follows: \$400,000 for BRT and \$300,000 for CBEC.

The subcommittee recommends that the surcharge increase for BRT be allowed but not for CBEC. CBEC is an academic laboratory building and the original decision was made that academic buildings would not receive a surcharge and would be included in the average (see the attached spreadsheet that illustrates the energy usage of the other lab building and their surcharge if this were in place for them). Including CBEC in the buildings that receives a surcharge would be setting a precedent. The other two increases in surcharges were approved. [SFC recommended to remove CBEC from the surcharge and have a task force review the surcharge process.](#)

Also, the subcommittee recommends that FOD work with the occupants of CBEC to finish its commissioning of the building or alternatively explain the source of the higher energy usage rate than what was modeled.

2. Decision point #2a Base funding increases for custodial labor. The argument was made that the Columbus market for janitorial services has become more competitive and to hold on to or attract individuals to do this work a salary increase was needed. This increase has already been approved by the CFO.

The subcommittee understood the need for this action.

Decision point #2b. Custodial Service Reductions recommended to offset the increase in labor expenses. The recommendation was to allow custodial services to offices once a week instead of more often.

The subcommittee agree that this was acceptable with the provision that coordination between building managers and the janitorial staff supervisors occurs in monthly.

[Both recommendations made in topic 2 were approved by SFC.](#)



FY 2017 Plant Operations & Maintenance

Senate Fiscal Committee
April 19, 2016

FY17 POM Rates - Big Picture

- ▶ **Utilities Commodities Expenses Down = Flat Rates**
An opportunity for total general funds rate to be flat to FY16 rates exists for FY17 due to lower natural gas expense.
- ▶ **Prioritizing Safety**
Proposed rates include funding to address safety related to gas building service lines and elevators.
- ▶ **Research-Intensive Building Utility Surcharges Recommended**
Utility Surcharge analysis has determined that several research-intensive buildings consume more utilities than are paid for through POM ASF rates. The original proposed rates included a surcharge increase of \$400k for BRT, and a phased-in new surcharge for CBEC of \$300k/year until \$1M/year is reached.
- ▶ **Strong Columbus Labor Market Increases Costs**
The strong Columbus labor market continues to increase contracted labor costs, particularly for custodial contracts. Market equity adjustments have also been approved and implemented for utilities workers.

FY17 Assumptions – All Pools

- ▶ Goal: Total Rate FLAT to FY16
- ▶ 2% salary guideline + associated benefits for Operations lines.
Benefits calculated based on proposed rates approved by Senate Fiscal in March.
- ▶ 0% benefits increase
- ▶ 1.5% increases for supplies & services

Recommendations

Non-Decisionable	Decisionable
Market Equity Adjustment: – Utilities Stationary Engineers (\$237k)	Utilities Surcharges: -BRT - \$400k increase -CBEC – phased in new surcharge - \$300k for first year
Safety Related Increases: -Building Gas Line Safety (\$250k) -Elevator Maintenance Contracts (\$228k)	Custodial Service Changes – 5% increase - \$450k: -Labor increases – 15% increase - \$1.25M -Mitigated by scope decreases – 10% decrease - \$809k
	Keep FY 2017 total rate flat to FY 2016 total rate

- CFS recommended all proposals except for the CBEC utilities surcharge.

POM Rate Summary: Funding Basis, No CBEC Surcharge

	POM MODEL NON-DECISIONABLE				POM MODEL DECISIONABLE			Total Proposed Rate	
	FY16 - Base	Inflationary & Commodity Increases/Decreases	Base Funding Increases - FY16 Market Equity Adjustment	Base Funding Increases - Safety Impacts	Total FY16 Base + Non-Decisionable Changes	Decision Point 1: Increase Utility Surcharge - BRT	Decision Point 2A: Base Funding Increases - Custodial Labor		Decision Point 2B: Custodial Service Reductions to Offset Increased Labor Expenses
FUNDING BASIS (\$ thousands)									
Utilities Revenue	(44,565)	1,882	-	-	(42,683)	(400)	-	-	(43,083)
Utilities Expense	114,837	(3,599)	237	250	111,725	-	-	-	111,725
Utilities - 5%	271	-	-	-	271	-	-	-	271
Net Utilities	70,543	(1,717)	237	250	69,313	(400)	-	-	68,913
Maintenance	29,848	708	-	228	30,784	-	-	-	30,784
Maintenance - 5%	1,676	-	-	-	1,676	-	-	-	1,676
Total Maintenance	31,524	708	-	228	32,460	-	-	-	32,460
Custodial	15,180	466	-	-	15,646	-	1,158	(809)	15,995
Custodial - 5%	1,143	-	-	-	1,143	-	-	-	1,143
Total Custodial	16,323	466	-	-	16,789	-	1,158	(809)	17,138
Maintenance/Renewal Endowment	75	-	-	-	75	-	-	-	75
Preventative Maintenance	4,485	-	-	-	4,485	-	-	-	4,485
Total Funding Through POM Model	122,950	(543)	237	478	123,123	(400)	1,158	(809)	123,072

POM Rate Summary: Rate Basis, No CBEC Surcharge

	POM MODEL NON-DECISIONABLE				POM MODEL DECISIONABLE			Total Proposed Rate	
	FY16 - Base	Inflationary & Commodity Increases/Decreases	Base Funding Increases - FY16 Market Equity Adjustment	Base Funding Increases - Safety Impacts	Total FY16 Base + Non-Decisionable Changes	Decision Point 1: Increase Utility Surcharge - BRT	Decision Point 2A: Base Funding Increases - Custodial Labor		Decision Point 2B: Custodial Service Reductions to Offset Increased Labor Expenses
RATE BASIS									
Utilities Revenue	(5.95)	0.26	-	-	(5.69)	(0.06)	-	-	(5.75)
Utilities Expense	15.40	(0.50)	0.03	0.03	14.96	-	-	-	14.96
Utilities - 5%	0.03	-	-	-	0.03	-	-	-	0.03
Net Utilities	9.48	(0.24)	0.03	0.03	9.30	(0.06)	-	-	9.24
Maintenance	3.41	0.09	-	0.03	3.53	-	-	-	3.53
Maintenance - 5%	0.19	-	-	-	0.19	-	-	-	0.19
Total Maintenance	3.60	0.09	-	0.03	3.72	-	-	-	3.72
Custodial	2.36	0.07	-	-	2.43	-	0.18	(0.13)	2.48
Custodial - 5%	0.18	-	-	-	0.18	-	-	-	0.18
Total Custodial	2.54	0.07	-	-	2.61	-	0.18	(0.13)	2.66
Maintenance/Renewal Endowment	0.01	-	-	-	0.01	-	-	-	0.01
Preventative Maintenance	0.60	-	-	-	0.60	-	-	-	0.60
Total Rate Through POM Model	16.23	(0.08)	0.03	0.06	16.24	(0.06)	0.18	(0.13)	16.23

Maintenance & Renewal Recommendation

- ▶ Assuming that the overall goal for the FY17 POM rate is to remain flat to FY16, there is no available rate to apply to new funding for either maintenance & renewal pool. However, this continues the trend from the FY16 POM rates of underfunding these pools.
- ▶ It is proposed that instead of dedicating rate in the FY17 POM model, that balances from the Utilities Reserve be used to fund the maintenance and renewal endowment as follows:
 - ▶ The Utilities Reserve should maintain a minimum balance of \$30 million.
 - ▶ Transfers would occur at the end of FY16 and FY17 based on the ending balance of the Utilities Reserve after all closeout entries are made and \$1M of funding is transferred to the Sustainability Council.

Utilities

FY16 Utility Closeout Projection

Expense Assumptions

Surcharges

FY16 Utility Closeout Projection

- At year end, all utilities balances will be swept to the Utilities Reserve. Utilities expenses are expected to be favorable to budget:
 - Mild weather (both summer and winter)
 - Decline in gas costs
 - Less utility consumption than budgeted in James Tower, South Dorms, Ohio Union, Knowlton, and garages (CampusParc)

FY16 Closeout Projection (\$ thousands)

	Budget	Projected Actuals (per FOD)	Projected Closeout
Heat & Power	39,542	37,847	(1,695)
Water	3,621	3,344	(277)
McCorkle Surcharge	240	240	0
RPAC Surcharge	290	290	0
BRT Surcharge	872	872	0
Total Revenue Closeout	44,565	42,593	(1,972)
Gas, Fuel Oil	15,710	13,327	2,383
Purchased Power	48,900	46,276	2,624
Water & Sewerage	10,185	10,238	(53)
Total Expense Closeout	74,795	69,840	4,955
Net Projected Closeout			2,982

Expense Assumptions

► Purchased Power

- Consumption has been adjusted based on James Tower and CBEC metered usage and North Residential Housing District forecast.
- The original cost forecast was \$3 million below the FY16 budget for Purchased Power. However, the entire \$3 million was attributable to a one year drop in capacity charges.
 - Capacity charges are decreasing to \$59.37/MW-day for FY17, which is down from \$136.00/MW-day in FY16.
 - This will increase back to \$120/MW-day in FY18 and \$164.77/MW-day in FY19. Rates have not yet been set for FY20 and beyond.
- To insulate rates from expected increases in FY18 and FY19, it is recommended that the purchased power budget stay flat in FY17 as compared to the FY16 budget.
- It is likely that this treatment will generate a larger than normal positive sweep to the Utilities Reserve at the end of FY17. See Slide 7 for the proposed use of these funds.

Expense Assumptions

- ▶ **Gas:** Projections are based on December 2015 futures costs (current NYMEX cost + transmission/delivery). No hedging is currently planned. A cushion of \$500k has been built into the decrease to help insulate rates from uncertain prices in FY18 and beyond. This cushion will add to the expected positive sweep to the Utilities Reserve discussed in the Purchased Power line item.
- ▶ **Water & Sewer:** increase driven by increases in City of Columbus rates.
- ▶ **Debt Service:** \$33.3M in rates is fully loaded; increase of \$0.3M due to bond/project reconciliation. Debt associated with increase was originally assigned to the general debt service pool but was used for utilities projects.
- ▶ **Base Increases:**
 - ▶ Gas Safety Program (\$250k) – safety issue; non-decisionable
 - ▶ Stationary Engineers – Market Equity adjustments (\$237k) – non-decisionable

Surcharges Background

- ▶ Surcharges are implemented for buildings that incur utility costs that exceed the University rate by more than 15%. Current surcharges are in place for McCorkle Aquatic Pavilion, RPAC, and BRT.
- ▶ Past analysis has indicated that Hamilton Hall, Biological Sciences Building, Scott Lab, Physics Research Building, and Veterinary Medicine Academic Building would all be subject to a surcharge if the policy was applied consistently to all POM buildings.
- ▶ FOD analyzes energy usage annually and recommended the inclusion of a new surcharge for CBEC (phased in at \$300k/year for 3 years) and an increase of the BRT surcharge (+\$400k to \$1.3M). **CFS did not recommend the new surcharge for CBEC for FY17.**
- ▶ CDS recommended in 2007: “**Option 2.2 – Apply one facility rate for all buildings, but among newly constructed or renovated buildings negotiate rates for those buildings that appear to be outliers.**”

Surcharges Data

	FY 2015	FY 2016
RPAC Complex (RPAC & McCorkle Aquatic Pavilion)		
POM Paid	2,925,853	3,274,458
Surcharge Paid	530,000	530,000
Total Paid	3,455,853	3,804,458
Utility Cost	3,904,812	3,952,903
Remaining Shortfall	(448,959)	(148,445)
Shortfall % of Total Paid	13.0%	3.9%
Biomedical Research Tower		
POM Paid	2,585,473	2,502,853
Surcharge Paid	872,000	872,000
Total Paid	3,457,473	3,374,853
Utility Cost	4,615,601	4,734,743
Remaining Shortfall	(1,158,128)	(1,359,890)
Shortfall % of Total Paid	33.5%	40.3%
CBEC		
POM Paid	1,083,223	1,208,112
Surcharge Paid	-	-
Total Paid	1,083,223	1,208,112
Utility Cost	2,075,289	2,264,569
Remaining Shortfall	(992,066)	(1,056,457)
Shortfall % of Total Paid	91.6%	87.4%



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Maintenance

Base Increase – Elevator Maintenance Contracts

Base Increase - Maintenance

- ▶ **Elevator Maintenance contract increases (\$228k)**
 - ▶ Elevator contracts will be rebid for FY17.
 - ▶ Increased costs incurred by FOD for POM buildings under temporary arrangements have cost approximately \$19k/month.
 - ▶ \$228k ($\$19k \times 12$ months) is the expected increase when the contracts are rebid.
 - ▶ This increase is for FOD-serviced elevators ONLY.



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Custodial

Base Increase – Custodial Contracts

Base Increase - Custodial

- ▶ **Custodial contract increases (\$450k)**
 - ▶ Five out of eight existing custodial contracts will be rebid during FY17.
 - ▶ FOD expects labor increases in the contracts of 15% due to the strong Columbus labor market. This results in an estimated contract increase of \$1.25M.
 - ▶ To offset the 15% increase, FOD will negotiate service scope decreases of approximately 10%. This scope decrease would decrease the estimated contracts by \$809k. Service changes would include:
 - ▶ Visiting offices one day per week
 - ▶ Central collection of food waste
 - ▶ Total increase expected to be ~5% - \$450k.

Appendix

FY17 Billable Utilities Rates

FY17 Billable Rates

- ▶ The same assumptions apply to the methodology for determining billable rates as to the net POM rate. These rates are applied to projected consumption by utility to estimate revenue for FY17.

Utility	UOM	FY 2014 billed rate	FY 2015 billed rate	FY 2016 billed rate	FY17 projection	change from PY
Electric	kwh	0.07631	0.09047	0.09029	0.09022	-0.08%
Steam	1000 lbs	17.88304	18.45774	18.45744	16.77081	-9.14%
Water	CCF	6.25402	6.36238	6.36240	6.52080	2.49%
Chilled Water	ton hr	0.23653	0.25361	0.26615	0.26506	-0.41%
Gas	MCF	7.67562	8.27821	8.41699	7.77106	-7.67%

			Inflationary Increases + Commodities Changes	Base Funding Increases - FY16 Market Equity Adjustment	Base Funding Increases - Safety Impacts	Proposed Utilities Surcharges	Base Funding Increases - Custodial Labor Increase	Base Funding Adjustments - Custodial Service Reductions to Offset Increased Labor Expenses	TOTAL PROPOSED RATE				
	FY 2016 Funding	Rate							Marginal Change	FY 2017 Funding	Rate Margin	Rate	
Utilities													
Utilities Revenues													
Heat/Power Total	(39,542)	(5.28)	2,000	-	-	-	-	-	2,000	(37,542)	0.28	(5.00)	
Water	(3,621)	(0.48)	(118)	-	-	-	-	-	(118)	(3,739)	(0.02)	(0.50)	
McCorkle Surcharge	(240)	(0.03)	-	-	-	-	-	-	-	(240)	-	(0.03)	
RPAC Surcharge	(290)	(0.04)	-	-	-	-	-	-	-	(290)	-	(0.04)	
BRT Surcharge	(872)	(0.12)	-	-	-	(400)	-	-	(400)	(1,272)	(0.06)	(0.18)	
CBEC Surcharge	-	-	-	-	-	-	-	-	-	-	-	-	
Subtotal Utilities Revenue	(44,565)	(5.95)	1,882	-	-	(400)	-	-	1,482	(43,083)	0.20	(5.75)	
Utilities Costs													
Gas, Fuel Oil	15,710	2.10	(5,195)	-	-	-	-	-	(5,195)	10,515	(0.72)	1.38	
Metering/Equipment Install	580	0.08	-	-	-	-	-	-	-	580	-	0.08	
Purchased Power	48,900	6.53	(3,000)	-	-	-	-	-	(3,000)	45,900	(0.41)	6.12	
Water & Sewerage	10,185	1.36	354	-	-	-	-	-	354	10,539	0.05	1.41	
Utility Rate Smoothing	-	-	3,200	-	-	-	-	-	3,200	3,200	0.44	0.44	
Utilities Chemicals	407	0.03	(34)	-	-	-	-	-	(34)	373	-	0.03	
Utilities Repair & Renovation	600	0.08	34	-	-	-	-	-	34	634	-	0.08	
Utilities Gas Safety	-	-	-	-	250	-	-	-	250	250	0.03	0.03	
Utilities Debt Service	32,992	4.41	318	-	-	-	-	-	318	33,310	0.04	4.45	
Utilities Operations	5,996	0.81	115	237	-	-	-	-	352	6,348	0.05	0.86	
Utilities 5%	271	0.03	-	-	-	-	-	-	-	271	-	0.03	
New Facilities	(533)	-	608	-	-	-	-	-	608	75	0.08	0.08	
Subtotal Utilities Costs	115,108	15.43	(3,599)	237	250	-	-	-	(3,112)	111,996	(0.44)	14.99	
Net Utilities	70,543	9.48	(1,717)	237	250	(400)	-	-	(1,629)	68,913	(0.24)	9.24	
ASF	7,488,751											7,238,927	
Maintenance													
Maintenance Operations	21,368	2.42	412	-	228	-	-	-	640	22,007	0.08	2.50	
Maintenance 5%	1,676	0.19	-	-	-	-	-	-	-	1,676	-	0.19	
New Facilities	-	-	219	-	-	-	-	-	219	219	0.03	0.03	
Repair & Renovation	8,480	0.99	77	-	-	-	-	-	77	8,557	0.01	1.00	
Net Maintenance	31,524	3.60	708	-	228	-	-	-	936	32,460	0.12	3.72	
ASF	8,126,058											7,743,751	
Custodial													
Contract Services	7,103	1.10	101	-	-	-	1,158	(809)	450	7,553	0.07	1.17	
Custodial Operations	8,077	1.26	152	-	-	-	-	-	152	8,230	0.02	1.28	
Custodial 5%	1,143	0.18	-	-	-	-	-	-	-	1,143	-	0.18	
New Facilities	-	-	213	-	-	-	-	-	213	213	0.03	0.03	
Total Custodial	16,323	2.54	466	-	-	-	1,158	(809)	815	17,138	0.12	2.66	
ASF	6,682,945											6,453,355	
Maintenance/Renewal Endowment													
Maintenance & Renewal Endowment	75	0.01	-	-	-	-	-	-	-	75	-	0.01	
ASF	7,474,854											7,051,179	
Preventative Maintenance													
Preventative Maintenance	4,485	0.60	-	-	-	-	-	-	-	4,485	-	0.60	
ASF	7,474,854											7,051,179	
Total	122,950	16.23	(543)	237	478	(400)	1,158	(809)	122	123,072	0.00	16.23	