

Long-Term Contract Finances Major Capitol Improvements to Dining Facilities

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Introduction of the Organization

The University of South Carolina is the flagship university for the State of South Carolina. Located in Columbia, the state capital, the main campus is situated directly across the street from the capital building and other state and federal offices. The University has approximately 23,000 students (15,500 undergraduates and 7,500 graduate/professional students). The main Columbia campus is situated on approximately 300 acres in downtown Columbia. The University houses 7,000 students on campus and feeds approximately 18,000 students, faculty, staff and guests in its 7 major dining facilities daily during the academic year.

Statement (restatement) of the Problem/Initiative

The problem facing The University of South Carolina was the following question: What do you do when you have \$12 million in deferred maintenance in your dining facilities, antiquated cooking and servery capabilities, outdated décor and ambiance, a pressing need to add more dining space to accommodate student demands, a continuing need to provide substantial scholarship contributions from food service revenues and very limited funds to address any of the above?

Design

Whatever solution was devised to address the University's need in the dining services area had to address a multitude of concerns. These concerns encompassed the need to offer a financially rewarding contract to the interested vendors, and still creating enough revenue for the University to continue to fund its scholarship program which relied on revenue from this contract. It also had to address renovation needs while not imposing too much up-front cost on the University.

The University was fortunate to find that there were major national vendors very interested in our business and willing to consider a long term contractual arrangement so the major facility investments could come from the vendor side of the relationship while the scholarship donations continued from the University's revenue stream under the contract.

The RFP that was created structured the relationship between the University and its future food service vendor like that of a landlord/tenant. Essentially, the University owns the facilities in which the dining areas are housed, and therefore needed to be in control of any projects that affected building infrastructure. The University's obligation under the new contract is to deliver the raw space appropriately wired, plumbed, ventilated, heated and cooled so the vendor can come in and upfit this space, with prior approval of the University, to reflect current food service trends, methods and looks.

Implementation

Recognizing the opportunity that a new long-term contract offered to address these challenges in improving food service, the University set about the tasks of first, determining the extent of the deferred maintenance needed in its dining facilities, and second, determining the priority and projected schedule under which each of the 7 major existing facilities could be renovated. The University then devised financial requirements that any vendor would have to be willing to meet at a minimum to respond to the RFP. The amounts and timing of these financial requirements were designed to provide the University with the funds it would need for the basic infrastructure renovation * electrical, mechanical and plumbing.

The RFP required the vendors to take each of the 7 major facilities currently in operation, several smaller grab-and-go operations, and 3 new facilities on the drawing board and propose renovations to improve the appearance and ambiance of these facilities. For each design proposal, the vendors were required to state an amount that their proposed improvements were estimated to cost, which became a committed expenditure in carrying out each of the proposed projects.

The food side of the contract did not go ignored in the process. In addition to facility renovations, the vendors were also required to propose new an innovative menus and cooking techniques that would boost the quality and appeal of the campus dining offerings. Without many of the facility upgrades, the new cooking techniques would not have been feasible.

Making renovations throughout the dining services program in a 3 year time frame sounds very exciting, but with a 15 year contract in place, how does a University ensure that the momentum is sustained and the facilities are kept current with state-of-the-art equipment and décor? The University recognized this challenge in drafting its RFP and addressed those issues by requiring 3 things: (1) annual payments into a depreciation reserve account to be maintained by the University to keep the infrastructure well maintained; (2) an escrowed amount to be deposited annually by the vendor to provide a guaranteed funding source for renovating the facilities on a maximum cycle of 5 years; and (3) another escrowed amount to be deposited by the vendor to provide a guaranteed funding source for the future equipment replacement.

Benefits

Thus far in the process the University has seen many benefits from the new 15 year dining services contract. Students have improved dining options and facilities. Business has increased over 6% in the campus dining facilities overall with the renovations completed thus far. The initial infusion of \$10.2 million dollars in vendor financed renovations during the first 2 years of the contract has enabled the University to turn its outdated, unattractive, congested dining facilities into state of the art appearing and functioning facilities during a time when funding from state appropriated sources has been reduced. The renovated Dining facilities are now on the main tour for prospective students and many have commented that ours are the most attractive they've seen on any campus. The student newspaper has even said that our renovations have "made it cool to dine on campus again," and the local paper, which has the widest circulation in the State, said it was completely amazed by the transformation. Because the majority of the work that was done was financed by the vendor rather than by the University, the work was able to progress much more quickly since many of the state procurement procedures were not applicable. From the investment and time frame perspectives, the University would not have been able to address this critical quality of life issue on campus had this approach not been available and successful. And with the built in protections provided with annual contributions to the University for a Depreciation Reserve Account for the dining facilities in an amount of \$350,000, additional major capitol contributions of \$1,000,000 in Years 3, 6 and 11 of the contract, and a requirement that the vendor escrow \$2.60 per sq. ft. of food service facility space to fund renovations in the facilities at least every 5 years, the University has found a

means to both provide for the immediate upgrade of the current facilities and ensure that they will be kept in a current state of upfit and repair.

Retrospect

A comprehensive, long-term approach like this takes considerable time to research and structure. Because the decision to focus the goals of the new contract on capital improvements was not made until November of 2001, with a time frame of July 1, 2002, for establishing a new contract, the homework required of fully evaluating the conditions of the current dining facilities had to be done in a very concentrated time frame. By rushing the process, we have faced the risk with each renovation project of funding unforeseen building conditions that affect the cost the University incurs in fulfilling its obligations as the Landlord to renovate the building systems supporting the dining services portion of the facilities involved. So far, the surprises have been manageable financially, but we still have three of the seven major projects left to do. My advice to anyone interested in a similar approach is to plan way ahead and allow at least two years to fully assess all conditions and costs before proceeding.