LAST YEAR, A WEALTHY CLEVELAND TRUSTEE became outraged by cost overruns on a building for which he had donated the preponderance of funding. He laid the blame at the doorstep of the university’s governing board, which he said was responsible for the “rotten mess” of poor management, frequent administrator turnover, and a construction price tag more than double the original estimate. He demanded that the board resign, and he withheld donations not only from the university but from the city’s charities, pending a university governance overhaul.

However one might regard the specifics of this high-profile imbroglio, it is a reminder of the ultimate responsibility of boards to monitor the performance of management. The episode also suggests a need for boards to be more familiar with the issues involved in conceiving, commissioning, and monitoring a campus building project.

The concrete responsibilities of a governing board for a substantial facilities project will depend largely on the size and maturity of the institution and the nature and expertise of its staff. But in any situation, the board is ultimately responsible for several critical components.

Involved at the Start. When a board is thinking about a new project, the first question to ask is whether there is any way to avoid building a new building. Are there solutions that might address the problem without incurring the extraordinary expense of construction? Can functions or schedules be shuffled to rebalance underused areas with overused ones? Can an existing building be transformed more cheaply than a new one can be built?

If construction appears warranted, be aware that few projects run perfectly smoothly. A complex project requires a series of board actions. The more thoroughly trustees understand the entire picture from the start, the more
likely it is that subsequent discussions will unfold productively and according to plan.

The most ambitious projects may need to allow for phases if the pace of fund-raising does not keep up with the full project cost. Instead of revisiting a decision of whether or not to build at each phase, it is best first to get a comprehensive endorsement for the project’s goals and means and then to require periodic budget review and approval at pre-set milestones. The trap of considering each phase of a project as if it were a new project to be freshly authorized risks turning a half-achieved objective into a political football.

After personnel-related costs, facilities typically represent the second largest operational costs in most institutions and the greatest investment of its assets. Yet boards generally consider facilities questions as technical ones to be delegated to those with construction, mechanical, or engineering knowledge.

Most boards have facilities committees that screen major maintenance expenditures before board authorization and oversee staff performance in ongoing maintenance and capital improvement programs. When these same committees are asked to guide and monitor the development of new facilities, they often show little mastery of the critical fiduciary issues—strategic, conceptual, and financial. (See the box on page 26.)

Dealing with these larger questions is less a matter of having special expertise than of raising the appropriate issues for discussion with the board as a whole. Once the discussion is framed appropriately, specialized expertise can be acquired as needed.

Hidden Costs. When a construction cost figure is mentioned (and it almost always is the figure mentioned), the first response from a board should be to ask for the total project cost. Construction costs cover only the amount paid to the general contractor for the direct materials and labor of construction.

“Soft” costs, the expenses other than those paid to the contractor, can be defined in various ways, but they usually are substantial enough to influence the board’s thinking—or to provide a nasty surprise later. Soft costs include fees for architects, engineers, and other designers, consultants, and technical specialists. They can amount to 15 percent or even 20 percent of construction for a mid-range project, with additional costs for site acquisition, furnishings, special equipment, moving, temporary storage facilities, and various other one-time costs of getting settled into a new or renovated building.

A large institution generally will assign management costs from the facilities department to project overhead; a small institution will need to hire project-management staff for a substantial project.

Contingency allowances address unanticipated conditions or opportunities that are identified only as a project evolves through design and construction. It’s a good idea to build in a generous contingency allowance during the initial stage of a project, especially in a renova-
tion where some conditions may be indetermi-
nate at the outset. This creates the possibility
of recapturing any unused allocations later on.
When construction begins, a contingency of 10
percent to 15 percent of projected construction
cost is typical, but if budgeting is completed
before design begins (a prudent idea), the figure
should be as high as 25 percent to 30 percent
to accommodate some of the details the initial
broad vision fails to anticipate.

Operating-cost and revenue projections for
a new facility also can help a board evaluate a
project’s feasibility. If an old building is being
replaced, substantial savings in utilities and
maintenance can be expected. A new building
may provide the opportunity to increase vari-
ous revenues. While small compared with construction
costs, these operating budget items have ongo-
ing rather than one-time impact and can make
or break the case for a new building.

The most difficult area is probably the cost
of proper maintenance. When budgets become
tight, the path of least resistance often is to sim-
ply defer maintenance, a practice that essen-
tially is equivalent to spending the institution’s
endowment (or perhaps more like keeping the
endowment in cash in an office safe).

An appropriate maintenance budget for a
mature physical plant should be from 1.5 per-
cent to 3 percent of the appraised value of the
institution’s property. If such sums are not
budgeted annually, the deterioration of facili-
ties eventually becomes visible, eroding the
institution’s image and substantially increasing
the eventual cost of correction.

A good alternative to risking future deferred
maintenance is a maintenance endowment. This can be a difficult added challenge for
those raising funds for a building. But to the
extent it is feasible, creating such a fund can relive the institution of the insidious cumu-
lative operating budget burden that comes
with additional facilities. Securing a mainte-
nance endowment as part of a comprehensive
campaign, especially in good economic times,
can avoid an annual operating budget chal-
lenge. A figure of 20 percent of construction
costs often is used for a maintenance endow-
ment, but a fully funded figure is likely to be
more than twice that.

A Board Member’s Blueprint

Fiduciary responsibilities for trustees in the
realm of campus buildings can be summa-
rized in three axioms:

Know the issues. No amount of experience or knowl-
eedge in the administration will exonerate the governing
board from its fiduciary responsibilities related to build-
ings. There are some decisions about the commitment of
funds that only the board can make. Trustees should
have a conceptual understanding of the building projects
they will be dealing with and an awareness of the com-
mon pitfalls they can avoid.

Think strategically. The cost alone requires facilities to
be measured carefully against the institution’s strategic
plan. New buildings should address necessities rather
than merely gratify egos. But they can do much more:

convey values, establish an institutional brand identity,
and shape morale. The governing board is ultimately
responsible for ensuring that these issues are raised and
addressed and that the institution’s facilities are used as
a major strategic asset.

Keep in touch. The facility-creation process does not
run itself. Trustee participation in oversight can raise
critical questions of prioritization, focus, and budget
before expensive mistakes get too far to correct without
major cost or disruption. This becomes especially
important in light of the governing board’s responsibility
for fund-raising. For capital campaign leadership,
there can be no better preparation than participation
in building planning, design, and construction
management.—S.B.F.
A Board’s Unique Role. The scale, breadth, and rarity of facilities projects and the strategic thinking, fund-raising, and financial oversight required during this process make erecting buildings something of a special case of joint responsibility between the governing board and management. For most institutions, creating new facilities is far from a core management competency. Even a large institution’s facilities department addresses only the technical and operational aspects of getting a facility built.

For any institution, the critical processes of conceptualizing, planning, programming, designing, funding, and monitoring the costs of facilities require participation of constituencies beyond senior administration, and this participation starts with the board. Only a governing board has the breadth of experience and sophistication—and the standing—to ask the critical, probing questions about budget, necessity, priorities, strategy, and identity that are required to shape a successful project.

The foundation of stewardship is the board-approved strategic plan. At the next level, a physical master plan takes the strategic plan as a guide into the realm of physical planning. Only after completion of that two-level groundwork can an individual building be planned, programmed, and budgeted wisely. And only the governing board can insist on that sequence.

The extent of actual board participation in strategic and master planning as well as design and budget overview is a matter for the judgment of individual boards. All of these tools, however, are part and parcel of proper stewardship of mission and finances; they are excellent vehicles for instilling increased involvement and commitment to the institution on the part of trustees. They also prepare board members to be well informed and convincing when they solicit donors for capital gifts.

One obvious strategic objective might be to enhance identity and visibility through thoughtful representation of the values of the institution and the messages it wishes to convey in a building’s design. This is more difficult than commissioning a fashionable architect to design a “signature” building. Rather than looking to an architect’s signature and brand identity, a more effective approach would be to attend directly to the institution’s brand.

Conserving Trustee Time. The simple message here is that the creation of new facilities—and the stewardship of existing ones—carry an important governance responsibility that goes to the essential fiduciary role of a board. The strategic, financial, and development considerations require a board to invest some time in advance of and during any process of facilities creation to avoid stress, expense, and missed opportunities.

Administrators generally try, appropriately, to protect a governing board’s time and to insulate the board from too much involvement in management issues. However, facilities creation is clearly a shared responsibility between governance and management, and sheltering the board from early understanding can cause serious repercussions later on in such areas as commitment to fund-raising, informed participation in cost control, and approval of operating budgets.

Even an hour or two of a board meeting agenda or a half-day a retreat is enough to orient the board to the critical issues. It also will give trustees a fair sense of the outside expertise they may wish to engage to ensure a smooth and effective planning process that will minimize risks while maximizing impact.

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