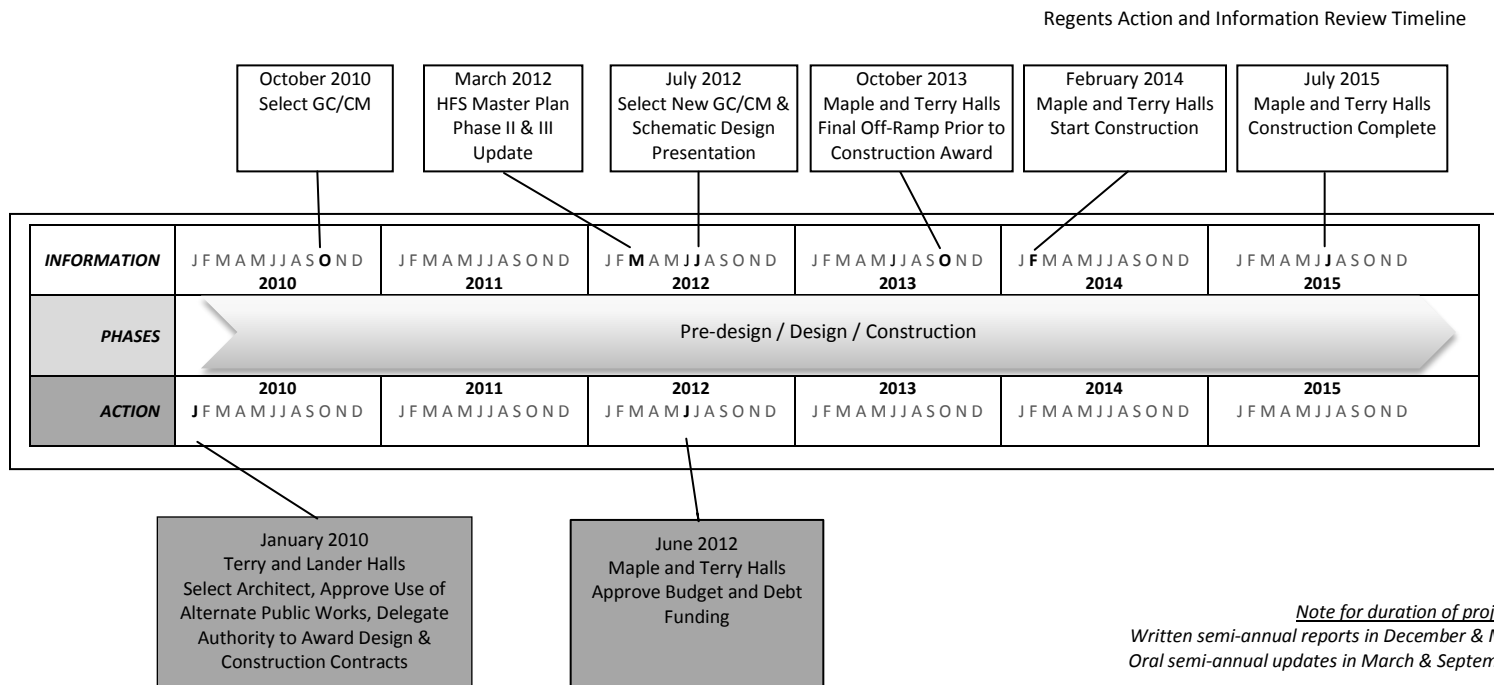


VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase III: Maple and Terry Halls Project - Approve Project Budget and Approve Debt Funding



RECOMMENDED ACTION

It is the recommendation of the administration and the Finance, Audit, and Facilities Committee that the Board of Regents:

- 1) Approve a total project budget of \$133,000,000 for Student Housing Phase III (Maple and Terry Halls Project); and
- 2) Approve the use of the Internal Lending Program to fund up to \$142,300,000 for design, construction, furniture, fixtures, equipment, and financing costs.

HOUSING MASTER PLAN

The University of Washington has a goal of providing quality housing for its students and encouraging on-campus residency. Residential on-campus housing provides a community of young scholars who are immersed in a carefully structured living and learning environment with the opportunity to mature and be successful in their educational pursuits.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### Student Housing Phase III: Maple and Terry Halls Project - Approve Project Budget and Approve Debt Funding (continued p. 2)

To achieve this goal, the department of Housing and Food Services (HFS) developed a comprehensive Housing Master Plan that proposes to add approximately 2,365 new beds over a ten-year period with a total project budget of approximately \$850 million. The Housing Master Plan was first presented to the Board of Regents in March 2008 and identified several crucial issues with student housing at the University. These included extensive deferred maintenance needs in the current stock of mid-20<sup>th</sup> century high-rise residence halls; the need for additional beds to alleviate the overcrowding in existing student housing facilities; and a demand for on-campus residency from upper division undergraduate and graduate students.

The Housing Master Plan has been updated to address the need to accommodate increased out-of-state and international enrollments. The current forecast is to construct approximately 2,195 new beds during the Housing Master Plan period for approximately \$844 million. HFS will continue to examine the feasibility of increasing density in one or more future projects in order to meet the overall goal of 2,365 net new beds.

The individual projects in the Housing Master Plan are sequenced to achieve three specific objectives: 1) to alleviate existing overcrowding, 2) to provide the surge space necessary to accommodate renovation of the existing residence halls, and 3) to increase the number of new beds to respond to student demand. The phased implementation of the housing plan, in turn, provides for managing project risk through the use of off-ramps (based on expected student occupancy) at key points throughout each phase of implementation. The financial analysis tests for the independent financial feasibility of each phase.

#### PROJECT SCOPE

The existing Lander/Center/Terry Hall complex is a single joined building with a partial below-grade parking level. The redevelopment of the Lander/Center/Terry Hall site will create three student-residence buildings separated at grade with pedestrian plazas at 11<sup>th</sup> and 12<sup>th</sup> Avenues. A new loading dock and below-grade parking garage will join the three buildings. The loading dock and a part of the garage will be constructed as part of the Lander Hall Replacement project (Phase II) and extended in this project, resulting in approximately 180 parking spaces below grade at the completion of Phase III. This development achieves the desired building program using all new construction for five floors of wood-framed construction over two floors of above-grade concrete.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### Student Housing Phase III: Maple and Terry Halls Project - Approve Project Budget and Approve Debt Funding (continued p. 3)

The Center Building (new Maple Hall) currently houses the kitchen and dining facility for the west of 15<sup>th</sup> Avenue residence halls. The Lander Hall project will include a new kitchen and dining facility.

Terry Hall currently provides approximately 846 residence hall beds. Terry was originally designed for two beds per room, and is now partially configured with three beds per room to accommodate student demand for on-campus housing (elimination of triple-bed configurations is part of the Housing Master Plan). Terry Hall will have two floors for Housing and Food Services offices with five and a half floors of residences above, also with lounges and study rooms.

Maple and Terry Halls will be designed with each unit having two beds and a private bathroom (similar to the Phase I projects). Maple Hall will have student activity and resource spaces, including a gaming area, meeting rooms, project workrooms and residences above with lounges and study rooms.

Maple Hall will provide approximately 800 beds and Terry Hall will provide approximately 300 beds, for a combined total of 1,100 beds. The number of beds in the new Terry Hall is lower than the existing Terry Hall for a couple of reasons: 1) the rooms are going from a triple-bed configuration to double-occupancy; and 2) the footprint for the new Terry Hall is smaller, because the new street level plaza aligning with 11<sup>th</sup> Ave NE is on part of the existing Terry Hall footprint. The redevelopment of the entire Lander/Center/Terry complex will provide approximately 1,750 beds, replacing the 1,200-bed design capacity of the existing Lander and Terry Halls.

#### PROJECT REFINEMENTS

Phase III Maple and Terry Halls will complete the redevelopment of the existing Lander and Terry Halls site (Lander Hall is being replaced as part of Phase II).

Phase III of the Housing Master Plan originally proposed renovation to the Center Building, Terry Hall, and McMahon Hall, plus the addition of apartments to Terry Hall. At the March 2012 Board of Regents meeting, renovation of McMahon Hall was removed from Phase III and moved to Phase IV of the Housing Master Plan.

After extensive building investigations by the GC/CM and code reviews architect, it was determined that the cost of renovating Terry Hall exceeded the cost of constructing a new residence hall on a square foot basis.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### Student Housing Phase III: Maple and Terry Halls Project - Approve Project Budget and Approve Debt Funding (continued p. 4)

Based on this information, changes to the Housing Master Plan were made. The new Phase III proposes to demolish Center Building and Terry Hall and construct new student residences: Maple and Terry Halls. These projects will add approximately 1,100 new and replacement beds for a net addition of 1,990 beds from Phases I, II, and III, after accounting for the elimination of overcrowding.

#### GC/CM

During the predesign phase of the Terry and Lander Halls Renovation project, Skanska USA Building Inc. was awarded the GC/CM Preconstruction service contract. The decision revising the Center Building and Terry Hall portion of the project from renovation to new construction has led to a reselection of the GC/CM. The Capital Projects Office (CPO) is currently in the process of selecting a new GC/CM for the Maple and Terry Halls project. CPO plans to report on the contract award for the new GC/CM at the July 2012 Regents meeting as an action taken under delegated authority.

#### PROJECT SCHEDULE

Students will move from the existing Terry Hall into the new Lander Hall between Autumn 2013 and Winter 2014 quarters to allow for the start of construction on Maple and Terry Halls. The project will be completed in time for occupancy at the start of Autumn quarter 2015.

Architect Selection	January 2010
Predesign	March 2010 – April 2012
Design	April 2012 – September 2013
Construction	February 2014 – July 2015
Occupancy	August 2015

#### PROJECT BUDGET

The proposed Housing Master Plan Phase III total project budget is \$133,000,000 (see attachment 1). Additional Internal Lending Program financing costs are estimated at approximately \$9,300,000.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### Student Housing Phase III: Maple and Terry Halls Project - Approve Project Budget and Approve Debt Funding (continued p. 5)

#### PHASE III FINANCING PLAN

The sources and uses for the project are as follows:

<u>Sources of Funds</u>	(\$MM)
Housing and Food Services	0.0
Internal Lending Program	142.3
<b>Total, Sources of Funds</b>	<b>142.3</b>

<u>Uses of Funds</u>	
Design/Construction/Contingency/Other	125.0
Furniture, Fixtures and Equipment	8.0
ILP interest during construction	7.9
ILP cost of issuance	1.4
<b>Total, Uses of Funds</b>	<b>142.3</b>

Annual debt service	9.8
Repayment source: HFS Housing revenue	

#### CREDIT ANALYSIS

The Treasury Office performed a detailed credit analysis of Phase III for Housing and Food Services as part of the due diligence for this borrowing. For purposes of this credit analysis, Phase III was evaluated in isolation from future phases of the Student Housing Master Plan.

#### **Phase III Maple and Terry Halls Off-ramp**

Off-ramps provide an opportunity to adjust project scope and/or timing in response to changing circumstances. The Phase III off-ramp will consider Autumn 2013 occupancy rates for on-campus housing and be reported in October 2013. Other factors in the consideration to proceed with the project include an evaluation of any local, regional, or national events that could seriously impact attendance at the UW and any significant changes in the local private rental market that might materially impact the demand for on-campus housing.

If the estimated Autumn 2013 occupancy for on-campus housing is less than 90% and the expected leased rate for Mercer Court Apartments is less than 80%, Phase

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### Student Housing Phase III: Maple and Terry Halls Project - Approve Project Budget and Approve Debt Funding (continued p. 6)

III will be postponed or mitigation will be proposed to allow the project to proceed as planned.

Off-Ramp Date	Target Indicator	Minimum Threshold	HFS will postpone or propose mitigation if:
October 2013	Mercer Court occupancy	80%	Estimated Autumn 2013 occupancy is less than 80%
October 2013	HFS system occupancy	90%	Estimated Autumn 2013 occupancy is less than 90%

#### **Base Case and Stress Tests**

Project debt will be repaid with revenue from the Housing and Food Services system.

Base Case (see attachment 2): The base case ("expected case") analysis shows that HFS will be able to service the project debt while maintaining a minimum debt service coverage ratio of 1.25 in all years except 2016 and 2017, when coverage drops temporarily to 1.24 and 1.20, respectively. Coverage returns to 1.25 in 2018. Reserve levels are projected to remain above targeted minimums in all years.

Stress Tests (see attachment 3): Sensitivity analyses were performed to assess the financial impact of higher construction cost inflation, lower occupancy in new HFS units, and both stresses combined ("worst case"). These sensitivity analyses assume that HFS management takes no contingency actions to mitigate the negative financial impacts

Under the stress scenarios, HFS maintains positive ending reserve balances but temporarily fails to meet minimum coverage and reserve targets. Under the construction cost inflation stress test, HFS achieves positive coverage after 3 years at slightly below minimum (2016-2018) and maintains positive required reserves through the planning period. Under the more stringent occupancy stress test, HFS achieves positive coverage after 4 years at slightly below minimum (2016-2019) and moves toward positive required reserves after 2022.

Under the combined "worst case" stress scenario, HFS maintains positive ending reserve balances but temporarily fails to meet minimum coverage and reserve

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### Student Housing Phase III: Maple and Terry Halls Project - Approve Project Budget and Approve Debt Funding (continued p. 7)

targets. HFS achieves positive coverage after 4 years at below minimum (2016-2019) and fails to meet minimum required reserve levels after 2018. HFS management actions to mitigate these impacts would include controlling costs by closing underperforming residence halls, reducing staff costs, and reducing capital expenditures.

#### PREVIOUS ACTIONS

January 2010	Terry and Lander Halls Renovation architect appointment approved, GC/CM alternative public works contracting and delegation to award design and construction contracts approved.
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#### *Attachments*

1. Capital Projects Office – Summary Project Budget
2. Housing and Food Services Pro-forma
3. Summary of Stress Tests & Mitigation

**UNIVERSITY OF WASHINGTON  
CAPITAL PROJECTS OFFICE - SUMMARY PROJECT BUDGET  
ALTERNATIVE PROCUREMENT (GC/CM)**

PROJECT: Housing - Maple and Terry Halls

Project Number: 203512

ESTIMATED DATE OF COMPLETION: July 2015

<u>Project Budget</u>	<u>Total Escalated Cost</u>	<u>% of TPC*</u>
Pre-Schematic Design Services	\$ 794,000	0.6%
A/E Basic Design Services	\$ 5,058,000	3.8%
Extra Services	\$ 2,763,000	2.1%
Other Services	\$ 1,176,000	0.9%
Design Services Contingency	\$ 937,000	0.7%
<b>Consultant Services</b>	<b>\$ 10,728,000</b>	<b>8.1%</b>
GC/CM Construction Cost	\$ 84,300,000	63.4%
Other Contracts	\$ 1,110,000	0.8%
Construction Contingencies	\$ 7,200,000	5.4%
Sales Tax	\$ 8,798,000	6.6%
<b>Construction</b>	<b>\$ 101,408,000</b>	<b>76.2%</b>
HFS Equipment & Furnishings	\$ 8,000,000	6.0%
HFS Contingency	\$ 7,000,000	5.3%
Other Costs	\$ 3,189,000	2.4%
Project Management	\$ 2,675,000	2.0%
<b>Other</b>	<b>\$ 20,864,000</b>	<b>15.7%</b>
<b>Total Project Cost (TPC)*</b>	<b>\$ 133,000,000</b>	<b>100.0%</b>
 <b><u>Included in Above:</u></b>		
Escalation at 3% per year through October 2014	\$ 5,127,000	4.0%



**Housing & Food Services**  
**FY 2011-2022 Base Case Proforma**  
**HMP Phase III (\$000)**

	Audit <b>2011</b>	Budget <b>2012</b>	Forecast <b>2013</b>	Forecast <b>2014</b>	Forecast <b>2015</b>	Forecast <b>2016</b>	Forecast <b>2017</b>	Forecast <b>2018</b>	Forecast <b>2019</b>	Forecast <b>2020</b>	Forecast <b>2021</b>	Forecast <b>2022</b>
<b><u>Net Income</u></b>												
Operating Revenue	67,727	70,633	77,753	91,518	98,065	112,310	116,263	120,363	124,617	129,029	133,407	138,155
Operating Expense	49,530	52,998	56,580	60,738	62,366	66,964	69,141	71,393	73,723	76,133	78,627	81,207
<b>Net Operating Income</b>	<b>18,197</b>	<b>17,635</b>	<b>21,173</b>	<b>30,780</b>	<b>35,698</b>	<b>45,345</b>	<b>47,121</b>	<b>48,970</b>	<b>50,894</b>	<b>52,896</b>	<b>54,780</b>	<b>56,949</b>
Non Operating Income	1,166	683	516	703	809	1,005	985	980	993	1,024	1,366	1,444
<b>Total Income Before Debt Svc. and Cap. Exp.</b>	<b>19,363</b>	<b>18,318</b>	<b>21,689</b>	<b>31,483</b>	<b>36,507</b>	<b>46,350</b>	<b>48,106</b>	<b>49,950</b>	<b>51,887</b>	<b>53,920</b>	<b>56,146</b>	<b>58,392</b>
<b><u>Debt Service</u></b>												
HFS Debt Service (Includes HMP Phase I)	8,776	12,942	16,282	16,068	16,009	16,004	16,027	16,023	16,022	16,019	16,018	16,273
Phases II and III Debt Service	-	-	-	6,417	12,524	20,429	23,136	23,161	23,161	23,161	23,161	23,161
<b>Total Debt Service</b>	<b>8,776</b>	<b>12,942</b>	<b>16,282</b>	<b>22,484</b>	<b>28,533</b>	<b>36,433</b>	<b>39,163</b>	<b>39,184</b>	<b>39,183</b>	<b>39,180</b>	<b>39,179</b>	<b>39,434</b>
<b>HFS System Coverage</b>	<b>2.07</b>	<b>1.36</b>	<b>1.30</b>	<b>1.37</b>	<b>1.25</b>	<b>1.24</b>	<b>1.20</b>	<b>1.25</b>	<b>1.30</b>	<b>1.35</b>	<b>1.40</b>	<b>1.44</b>
<b><u>Capital Expenses</u></b>												
HFS Capital Expenses	6,499	9,196	9,605	4,800	4,700	4,700	13,700	14,000	14,309	14,627	14,955	15,293
<b>HFS Income After Debt Svc. and Cap. Exp.</b>	<b>4,087</b>	<b>(3,820)</b>	<b>(4,197)</b>	<b>4,199</b>	<b>3,274</b>	<b>5,217</b>	<b>(4,757)</b>	<b>(3,234)</b>	<b>(1,606)</b>	<b>113</b>	<b>2,011</b>	<b>3,666</b>
<b><u>Reserves</u></b>												
HFS Beginning Reserve Balance	25,314	29,195	25,206	21,250	25,449	28,723	33,940	29,183	25,949	24,344	24,456	26,468
Plus Income After Debt Svc. and Cap. Exp.	4,087	(3,820)	(4,197)	4,199	3,274	5,217	(4,757)	(3,234)	(1,606)	113	2,011	3,666
<b>Ending Reserve Balance</b>	<b>29,401</b>	<b>25,375</b>	<b>21,009</b>	<b>25,449</b>	<b>28,723</b>	<b>33,940</b>	<b>29,183</b>	<b>25,949</b>	<b>24,344</b>	<b>24,456</b>	<b>26,468</b>	<b>30,133</b>
HFS Reserve Requirement	12,406	13,100	13,816	14,648	14,973	15,893	16,328	16,779	17,245	17,727	18,225	18,741
<b>Over / (Under) Reserve Requirement</b>	<b>16,995</b>	<b>12,275</b>	<b>7,193</b>	<b>10,801</b>	<b>13,750</b>	<b>18,047</b>	<b>12,855</b>	<b>9,171</b>	<b>7,099</b>	<b>6,730</b>	<b>8,242</b>	<b>11,392</b>

**Housing & Food Services  
Summary of Stress Tests & Mitigation\*  
HMP Phase III (\$000)**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Base Case</b>												
HFS Debt Service Coverage	2.07	1.36	1.30	1.37	1.25	1.24	1.20	1.25	1.30	1.35	1.40	1.44
Ending Reserve Balance	29,401	25,375	21,009	25,449	28,723	33,940	29,183	25,949	24,344	24,456	26,468	30,133
Excess / (Deficit) of Reserve Over Requirement	16,995	12,275	7,193	10,801	13,750	18,047	12,855	9,171	7,099	6,730	8,242	11,392
<b>Occupancy Stress</b>												
HFS Debt Service Coverage	2.07	1.36	1.30	1.37	1.25	1.14	1.12	1.18	1.24	1.31	1.38	1.44
Ending Reserve Balance	29,401	25,375	21,009	25,449	28,723	30,038	21,859	15,738	11,836	10,301	11,376	14,891
Excess / (Deficit) of Reserve Over Requirement	16,995	12,275	7,193	10,801	13,750	14,145	5,531	(1,040)	(5,409)	(7,425)	(6,849)	(3,851)
<b>Construction Cost Stress</b>												
HFS Debt Service Coverage	2.07	1.36	1.30	1.37	1.25	1.22	1.18	1.22	1.27	1.32	1.37	1.41
Ending Reserve Balance	29,401	25,375	21,009	25,449	28,723	33,316	27,681	23,559	21,056	20,262	21,358	24,099
Excess / (Deficit) of Reserve Over Requirement	16,995	12,275	7,193	10,801	13,750	17,423	11,353	6,780	3,811	2,536	3,133	5,358
<b>Worst Case Stress</b>												
HFS Debt Service Coverage	2.07	1.36	1.30	1.37	1.25	1.12	1.09	1.15	1.22	1.28	1.35	1.41
Ending Reserve Balance	29,401	25,375	21,009	25,449	28,723	29,413	20,357	13,348	8,548	6,107	6,266	8,856
Excess / (Deficit) of Reserve Over Requirement	16,995	12,275	7,193	10,801	13,750	13,520	4,029	(3,431)	(8,697)	(11,619)	(11,959)	(9,885)

\*Stress testing is a sensitivity exercise and assumes that HFS managements takes no compensating action to mitigate negative impacts.

Shaded areas:

- Debt service coverage below minimum 1.25 times
- Ending reserve did not meet minimum balance requirement