# VII. STANDING COMMITTEES

# **F**–7

# B. Finance, Audit & Facilities Committee

<u>Molecular Engineering Interdisciplinary Academic Building (MEIAB) - Approve</u> <u>Exempting Funding from the Internal Lending Program</u>

## **RECOMMENDED ACTION**

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

- Exempting the \$53.5 million portion of the Molecular Engineering Interdisciplinary Academic Building (MEIAB) debt paid from Building Fee revenues from the Internal Lending Program; and
- 2) Restructuring the debt to a 26-year term, with a 3.6% interest rate, with an annual payment no greater than \$3.2 million from the Building Fee account, beginning immediately.

## BACKGROUND

In June 2009, the Board approved the use of the Internal Lending Program (ILP) to finance the Molecular Engineering Interdisciplinary Academic Building (MEIAB). The sources of repayment for the ILP loan are \$53.5 million in Building Fee revenue and \$20 million in Indirect Cost Recovery revenue. The revenue from the Building Fee, while generated locally, is held in a Building Fee account and subject to appropriation by the Legislature. The ILP loan was structured as a 30-year amortizing loan at the current 5.5% ILP interest rate.

Rather than participate in the ILP, the State legislature is directing the UW to set aside \$53.5 million of the proceeds from the UW's December 2009 General Revenue Bond issue to fund the Molecular Engineering Building and to only charge the Building Fee account the actual 3.6% interest rate and 26-year term on these bonds. The bonds were issued under the Build America Bonds program, paying interest-only during the 26-year term and a single "bullet" payment at the end of the term. The proceeds of the bonds were intended to fund cash flows for various approved campus projects, including the Molecular Engineering Building.

# IMPACTS TO THE INTERNAL LENDING PROGRAM

# **Borrowing Sooner for Other Projects**

Setting aside \$53.5 million of the remaining bond proceeds to the Molecular Engineering Building changes the timing of debt issuance for other approved

# B. Finance, Audit & Facilities Committee

Molecular Engineering Interdisciplinary Academic Building (MEIAB) - Approve Exempting Funding from the Internal Lending Program (continued p. 2)

projects. It means that new debt will have to be issued sooner than planned to accommodate cash needs for the UW Medical Center expansion, Phase 1 of the Housing & Food Services master plan, and other approved projects. Based on current cash flow projections, the next round of debt is expected to be issued by August 2010 – approximately four months sooner than originally planned.

# Interest Rate Differential: 5.5% vs. 3.6%

Reducing the rate on the Molecular Engineering loan from 5.5% to 3.6% will reduce the expected contribution to the ILP rate stabilization account by about \$500,000 per year. Given the large volume of payments from other projects that are currently being funded in the ILP, this decrease in revenue will not have a major impact on the sustainability of the Program. Further, these funds are not lost to the UW; they will remain in the Building Account and can be used to fund other debt service or campus minor works. However, the reduction comes at a time when the rate stabilization account is still not yet sufficient to offset the impact of a modest rise in external borrowing rates.

#### **Amortizing vs. Non-Amortizing**

The Build America Bonds were issued as non-amortizing debt, with interest-only payments for 26 years and a single principal payment at maturity. The legislature is directing that the debt payments from Building Fee revenue be paid as amortizing debt, which will meet the full interest cost on the UW's Build American Bonds debt only if the return on the principal balances paid by from the Building Fee is at least 3.5% over the 26-year term of the debt. Under the legislature's approach, the risk of not meeting this minimum return is borne by the UW.

#### **Impacts on Future Borrowing**

Unlike most of the UW's local funds, Building Fee revenues are subject to appropriation and are considered by the legislature to be "State Funds." Given the legislative direction for the Molecular Engineering Building project, future projects receiving funding from student Building Fees would also be issued as separate project debt rather than as part of the Internal Lending Program. Projects that may fall into this category include Balmer Hall and UW Tacoma Phase 3.

## VII. STANDING COMMITTEES

## B. Finance, Audit & Facilities Committee

<u>Molecular Engineering Interdisciplinary Academic Building (MEIAB) - Approve</u> Exempting Funding from the Internal Lending Program (continued p. 3)

#### **INTERNAL REVIEW AND APPROVALS:**

This action has been reviewed and approved by the Senior Vice President for Finance and Facilities and the Vice Provost for Budgeting and Planning.

#### Attachment

Molecular Engineering Interdisciplinary Academic Building – Approve Debt Funding and Budget Adjustment item from June 2009 Board of Regents meeting (minus attachments) <u>Molecular Engineering Interdisciplinary Academic Building (MEIAB) – Approve</u> <u>Debt Funding and Budget Adjustment</u> *Approved by the Board of Regents on June 11, 2009, Item F–9* 



# **RECOMMENDED ACTION:**

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

- 1) Revision of the project budget and scope for the Molecular Engineering Building from a \$78,500,000, 77,000 gross square foot (GSF) three-story building to a newly recommended 89,300 GSF four-story building. The revised budget for design and construction is \$77,723,000, and the total project budget is \$78,500,000; and
- 2) The use of the Internal Lending Program to fund up to \$74,000,000 for design, construction, and equipment.

# **PROJECT DESCRIPTION:**

The Molecular Engineering Interdisciplinary Academic Building (MEIAB) will accommodate growth anticipated in this emerging field. This project will be divided into a Research Lab portion and an Ultra-Sensitive Ground Contact Lab portion, each with support space. Phase 1 is recommended to be modified to add a fourth floor of shell and core space resulting in the same 49,000 GSF of finished space, with a new total of 40,300 GSF of shell space for a building total of 89,300 GSF. To the extent that project savings from the established budget are available, these funds may be used to build out additional finished space. Approximately 12,900 GSF of ground contact laboratory shell space is in the base scope, and the tenant improvement of this space is being designed to be fully built out as an alternate. This alternate is being designed to enable the University to potentially benefit from either a favorable construction market, or in anticipation of receipt of grant funding from the National Institute of Standards and Technology.

**ATTACHMENT** 

<u>Molecular Engineering Interdisciplinary Academic Building (MEIAB) – Approve</u> <u>Debt Funding and Budget Adjustment</u> (continued p. 2) *Approved by the Board of Regents on June 11, 2009, Item F–9* 

A second phase remains to be anticipated resulting in a total for both phases 1 and 2 of approximately 160,000 gross square feet. The Phase 1 scope also includes the relocation of Cunningham Hall to a site west of Parrington Hall, and the demolition of the existing Johnson Hall Annex. The revised exterior elevation rendering of a 4-floor Phase 1 and a 4-floor Phase 2 is shown in attachment 4. The currently approved scope shown in the October 2008 Regents meeting for the same elevation is shown in attachment 5.

The project will be located on the Johnson Hall Annex site referenced in the Campus Master plan as the 25C site.

## PREVIOUS ACTION:

The project was first presented to the Board of Regents in June 2007 and the President was delegated authority to award design contracts to Zimmer Gunsul Frasca (ZGF) Architects. At the March 2008 meeting, the Project Presentation was made to the Finance, Audit and Facilities Committee; the project budget was established at \$78,500,000; the use of alternative public works utilizing the General Contractor/Construction Manager (GC/CM) method of contracting was approved; and the President was delegated authority to award construction contracts, subject to no significant change in scope, the forecast cost being within 10% of the budget and funding being in place. The pre-construction contract was awarded to Hoffman Construction on August 7, 2008. The Schematic Design was presented at the October, 2008 meeting.

# SCOPE OF THE PROJECT:

The facility will be home for the Institute for Molecular Engineering and Sciences and will provide administrative support for this new group. These administrative spaces, along with the faculty and staff offices, student workstations, and conference/seminar spaces, will support the laboratory functions which make up approximately 80% of the programmed area of the facility.

The research laboratories provide space for three distinct program directions: new faculty; new initiatives; and shared instrumentation laboratories. These spaces will support faculty research in the areas of bio-chemistry, micro-biology, chemistry and other related fields. The laboratories will be used by faculty and graduate students for collaborative and individual research and are located immediately adjacent to office zones to facilitate interaction and collaboration. The instrumentation laboratory spaces are ground contact open labs to house the vibration-sensitive, specialty equipment that is envisioned as a shared resource for both the building and the University.

The building is being designed to be certified at LEED Silver level consistent with RCW 39.35D.

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#### FINANCING PLAN:

The sources and uses of funds for the project are below:

## Sources of Funds

Internal Lending Program State Capital Appropriations Total Sources of Funds	73,500,000 5,000,000 78,500,000
Uses of Funds	
Design Costs	8,397,000
Construction Costs	62,835,000
Equipment / Other	6,491,000
Total Design and Construction	77,723,000
Cost of Issuance	777,000
Total Uses of Funds	78,500,000

The debt service on the ILP loan will be repaid from two sources: UW building account revenues and indirect cost revenue.

Revenue from the Building Fee and trust lands will service \$53.5M of the project cost or about \$3.7M per year. This revenue has averaged \$9.5M annually over the last three years. It is expected to grow to nearly \$14M by 2012. Building fees and trust land revenue are deposited in the Bond Retirement Account, a non-appropriated fund on deposit with the State Treasurer. By statute, there is a minimum balance requirement in this fund equal to three years of debt service. Remaining balances after debt service and minimum balance requirements are transferred to the Building Account for capital expenditures as needed.

Indirect Cost Recovery (ICR) revenue will service up to \$20M on the project cost or \$1.4M per year. The Molecular Engineering Building will allow the College of Engineering to house new faculty and increase research for existing faculty; Engineering projects that these new research grants will increase indirect cost recovery by approximately \$1.4 million annually.

The Treasury Office has reviewed indirect cost projections with the Office of the Provost and believes that incremental and existing ICR will be sufficient to pay the debt.

<u>Molecular Engineering Interdisciplinary Academic Building (MEIAB) – Approve</u> <u>Debt Funding and Budget Adjustment</u> (continued p. 4) *Approved by the Board of Regents on June 11, 2009, Item F–9* 

## SCHEDULE:

Architect Selection Pre-design Design Award Pre-Construction Contract Construction Occupancy and Use June 2007 July 2007 to December 2007 April 2008 to December 2009 August 2008 August 2009 to October 2011 January 2012

## CURRENT PROJECT STATUS:

Rather than funding the project, the State's capital budget for the 2009-11 biennium included an authorization allowing the University to issue bonds to pay for the construction of the Phase 1 building. The amount authorized was approximately \$4 million less than what was requested, and this shortfall would be restored by the recommended financing plan.

The 20% Construction Document design submittal and cost estimate have been prepared by ZGF Architects, and their estimate reconciled with that prepared by Hoffman Construction. The cost estimate is approximately 8% under the currently approved project's construction budget of \$51,841,188. Depending on the results of the bidding, it is possible that additional savings may be achievable within the newly requested project scope. The College of Engineering also intends to seek grant funding of \$10.4 million to supplement a \$3 million match by the University, and these funds would be targeted to pay buildout shell space created by this budget, and the buildout of the ground-contact instrumentation laboratories. In the event that grant funding is received and the base scope of the project is achieved for less than the budgeted amount, any savings will be used for further build-out of shelled space rather than a reduction in borrowing. In that event, the project budget and scope would exceed this request by 10% and would be brought to the Board of Regents for approval before proceeding.

An early work package, including the relocation of Cunningham Hall, demolition of Johnson Hall Annex, shoring, mass excavation, and certain utilities, is ready to be issued for bids promptly upon approval of the use of the ILP recommended above. The remainder of the project will be bid in August, 2009.

#### SIGNIFICANT RISKS OR OPPORTUNITIES:

This is an opportunity to provide a signature building expressive of the University's research capabilities at one of the major campus entries.

The weakened construction market provides the potential to realize additional shell space at a favorable cost.

<u>Molecular Engineering Interdisciplinary Academic Building (MEIAB) – Approve</u> <u>Debt Funding and Budget Adjustment</u> (continued p. 5) *Approved by the Board of Regents on June 11, 2009, Item F–9* 

NIST grant funding is a significant opportunity to realize additional finished space.

# REVIEW AND APPROVALS

This recommendation has been reviewed and approved by the Senior Vice President and the Vice Provost for Budgeting and Planning.

Attachments:

- 1. Project Budget
- 2. Indirect Cost Recovery Summary, 2008 2017
- 3. UW Bond Retirement Account Summary, 2006 2015
- 4. Phase 1 and Phase 2 Schematic Design rendering
- 5. Phase 1 and Phase 2 Current rendering