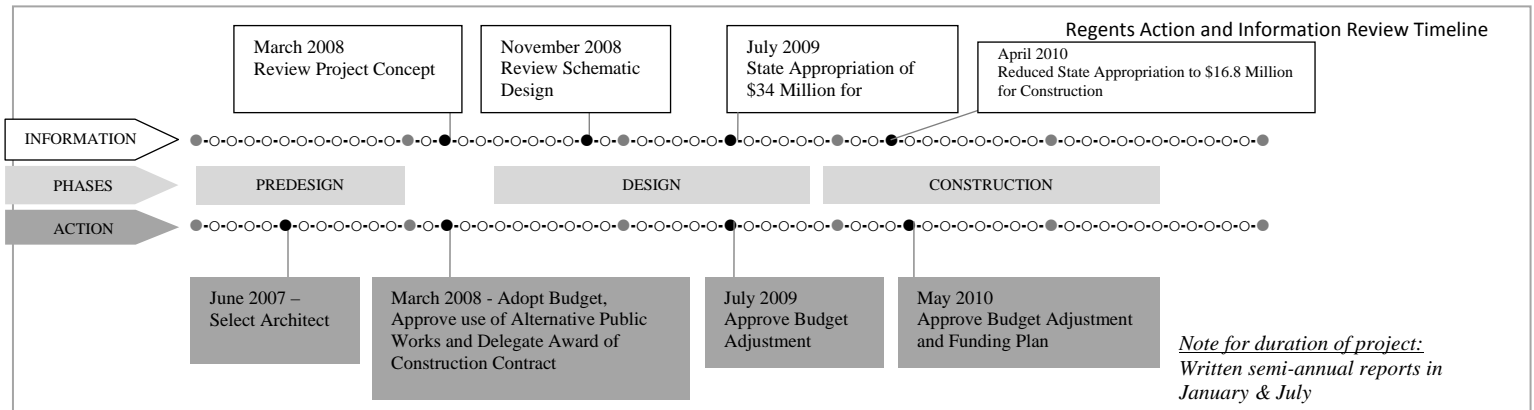


## VII. STANDING COMMITTEES

## B. Finance, Audit and Facilities Committee

UW Tacoma Phase 3 – Approve Budget Adjustment and Funding PlanRECOMMENDED 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 UW Tacoma Phase 3 project budget from \$40.15 million to \$54.3 million, and
- (2) Use of the Internal Lending Program to fund up to \$6.0 million for project and debt issuance costs.<sup>1</sup>

PROJECT DESCRIPTION:

The Phase 3 development on the UW Tacoma campus is intended to provide additional academic space to support expanded and new degree programs. The goal of the project is to develop capacity to eventually accommodate at least 600 additional student FTE and transition to a model of a comprehensive four-year institution.

Phase 3a includes the renovation of the Joy Building, the conversion of three rooms in the existing Science Building room to wet/dry labs, and related capital improvements. Phase 3a is currently under construction.

<sup>1</sup> An additional \$7.5 million in debt paid from building fees will be issued subject to regental approval of the annual bond resolution in July 2010.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### UW Tacoma Phase 3 – Approve Budget Adjustment and Funding Plan (continued p. 2)

Phase 3b includes the construction of the new Jefferson Avenue Building. The loss of State funding for Phase 3b caused it to lag behind Phase 3a. Design of the building is approximately 50 percent complete and is currently suspended pending Board approval of the recommended actions.

A detailed description of Phases 3a and 3b is in Exhibit 1.

The project was originally budgeted at \$60.15 million. The Legislature allotted \$6.15 million for project design in the 2007-09 biennium with an expectation by the University of receiving an appropriation for the remaining \$54 million in the 2009-11 biennium.

When the Legislature appropriated only \$34 million in the 2009-11 biennium, the Jefferson Avenue building was eliminated from the project scope and the total project budget was reduced to \$40.15 million. In the 2010 supplemental capital budget, the Legislature further reduced the appropriation from \$34 million to \$30.78 million, with \$16.77 million appropriated from the State Building Account and \$14.1 million appropriated from the UW Building Account. In addition, the Legislature authorized the issuance of up to \$7.45 million in debt to be repaid from UW Building Account revenues.

With a total of \$36.93 million in building account appropriation and \$7.45 million in authorized building fee debt, UW Tacoma proposes to add an additional \$4.5 million from reserves and up to \$6.0 million in Internal Lending Program debt to partially restore the project scope to its original parameters, which includes the Jefferson Avenue building. The total project budget for this restored project scope is \$54.3 million.

#### PREVIOUS ACTIONS:

At the June 2007 meeting, the Board of Regents delegated authority to the President to award a design contract to Thomas Hacker Architects. At the March 2008, meeting, the Board approved the original project budget of \$60.15 million, approved the use of alternative public works utilizing the General Contractor/Construction Manager (GC/CM) method of contracting, and delegated authority to the President to award the construction contract. At the November 2008 meeting, the Board reviewed the project's schematic design. At the July 2009 meeting, the Board approved a reduction in the project budget from \$60.15 million to \$40.15 million.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

UW Tacoma Phase 3 – Approve Budget Adjustment and Funding Plan (continued p. 3)

#### SCHEDULE:

Architect Selection	Completed in June 2007
Pre-design	Completed in December 2007
Design (Phase 3a)	May 2008 through September 2009
Design (Phase 3b, including suspension)	May 2008 through October 2010
Construction (Phase 3a)	July 2009 through January 2011
Construction (Phase 3b)	August 2010 through March 2012
Occupancy and Use (Phase 3a)	Spring Term 2011
Occupancy and Use (Phase 3b)	Summer Term 2012

#### CURRENT PROJECT STATUS:

The Capital Projects Office awarded a construction contract for Phase 3a to John Korsmo Construction as the General Contractor/Construction Manager under delegated authority. Construction of Phase 3a is underway, with occupancy of the renovated Joy Building scheduled for Spring Quarter 2011. Three existing Science Building spaces have been converted to wet/dry labs and are now in use. Some related capital improvements have been completed, while others will be completed in conjunction with the remaining building construction activity.

Design of Phase 3b is currently suspended at approximately 50 percent completion. If the recommended actions are approved by the Board, design will be restarted immediately to take advantage of summer 2010 weather conditions for early excavation and other activities.

#### PROJECT BUDGET AND FUNDING:

The Phase 3 project will be funded with a combination of State appropriations, reserves, building fee debt, and Internal Lending Program (ILP) debt.

On May 15, 2008, the Board adopted the amended the Debt Management Policy, which authorized the creation of the Internal Lending Program (ILP). With a few specific exceptions, this policy states that all borrowing after July 1, 2008 will participate in the ILP. One of the exceptions is “Debt repaid from appropriated University local funds”. In the 2010 legislative session, \$7.45 million of UW debt was authorized for UW Tacoma Phase 3, with the debt service to be paid from the UW Building Account, which is an appropriated local fund.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### UW Tacoma Phase 3 – Approve Budget Adjustment and Funding Plan (continued p. 4)

The UW Building Account has revenues from land and timber sales, interest on the Permanent Account, the Metropolitan Tract and the Building Fee portion of tuition. In recent years, annual revenues in this account have averaged \$22 million. Projections for FY10 and FY11 are projected to be \$26 and \$28 million, respectively.

Subject to Regental approval of the annual Resolution in July 2010, debt will be issued to fund both Balmer Hall and UW Tacoma Phase 3 on a project basis, rather than a cash flow basis, as is done under the ILP. The proceeds for both projects, totaling \$50.25 million (\$42.8 million for Balmer and \$7.45 million for UW Tacoma), will become part of a larger bond sale this summer that will also fund ILP cash flows for fiscal year 2011.

The sources and uses for the proposed project budget of \$54.3 million include:

<b><u>Sources of Funds</u></b>	<b><u>\$ Million</u></b>
<u>Cash:</u>	
State Appropriations	22.92
UW Building Acct	14.00
UW Tacoma reserves	4.50
<u>Debt:</u>	
Building Fee debt	7.45
Internal Lending Program debt	6.00
<b>Total, sources of funds</b>	<b>54.87</b>
 <b><u>Uses of Funds</u></b>	
Project design	7.81
Project construction	39.55
Equipment, administration, other	6.94
Debt issuance and ILP interest	0.57
<b>Total, uses of funds</b>	<b>54.87</b>

---

#### **Debt Service (Annual)**

Building Fee revenue	0.445
UWT property rental income	0.430
<b>Total, annual debt service</b>	<b>0.875</b>

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

#### UW Tacoma Phase 3 – Approve Budget Adjustment and Funding Plan (continued p. 5)

UW Treasury completed the due diligence review of UW Tacoma's capacity for repaying the \$7.45 million in building fee debt and \$6.0 million in ILP debt. The combined annual debt service for this debt is expected to be approximately \$875,000 and will be repaid from building fee revenue and income from properties managed by the Real Estate Office.

Base case. The base case assumes that student FTE is flat through FY2013 and starts growing in FY2014 at an average rate of approximately 10 percent per year. State operating support remains flat through FY2013 and starts increasing in FY2014 along with student FTE. Tuition increases annually at 7 percent. Faculty and staff levels remain flat through FY2013 and start increasing in FY2014 along with student FTE. New program costs start in FY2013.

Under base case assumptions, financial performance is expected to meet or exceed the minimum 1.25 debt service coverage in all years through FY2018. Fund balance is projected to reach approximately \$22 million by the end of FY2018.

Key risks. The three main revenue sources are State operating support and tuition, both of which reflect student FTE, and property rental income.

Sensitivity analysis. Treasury's sensitivity analysis focused on student FTE growth and assumed no growth in student FTE through FY2018. State operating support is assumed to remain flat through FY2018 and real estate income is assumed at 50 percent lower than forecast in the base case.

In this no-growth scenario, financial performance remains positive due to the combination of tuition increases at 7 percent per year and lower staff and program costs that accompany lower student FTE levels. With slightly reduced facility O&M levels, tuition increases could be lowered to approximately 5.5 percent per year before financial performance degrades to below the minimum 1.25 coverage level.

Risk mitigation. In the event that State operating support and/or property rental income is lower than forecasted base case levels, UW Tacoma may rely on reserves and cost management to offset these impacts.

## VII. STANDING COMMITTEES

### B. Finance, Audit and Facilities Committee

UW Tacoma Phase 3 – Approve Budget Adjustment and Funding Plan (continued  
p. 6)

#### OTHER SIGNIFICANT RISKS AND OPPORTUNITIES:

Renovation of the Joy Building presents another opportunity to restore a long abandoned, historic masonry structure on Pacific Avenue. This building is the last campus-owned building to be restored on this street between 21<sup>st</sup> and 15<sup>th</sup> Streets. It will complete the restoration of the retail core in this area.

Existing contaminated soils and underground water on the campus will continue to be a potential impact to the cost of construction and that planning for this cost is imperative for a successful project.

#### *Attachments*

- 1) Detailed 3a and 3b Scope Description
- 2) Summary Project Budget
- 3) Base Case Proforma

## DETAILED DESCRIPTION OF PHASES 3A AND 3B

### Phase 3a

The Russell T. Joy Building (Joy Building) is a three-story, 47,000 gross square foot historic masonry structure, constructed in 1892, located on the west side of Pacific Avenue, in the Union Depot/Warehouse Special Review District. The restoration of the Joy Building, which is currently under construction, will address structural, seismic, life safety, hazardous materials, accessibility and other code deficiencies and will improve the building enclosure (windows and masonry systems) to ensure the long-term preservation of the facility and safety of its occupants. The project will also upgrade all major building systems including mechanical, fire protection, and electrical systems to improve performance and energy efficiency, and upgrade communications and interior finish systems to meet modern classroom and academic program needs. The Joy Building will house general assignment classrooms totaling 698 seats and department space for the interdisciplinary arts and sciences program. A shelled space for retail use will be provided on the Pacific Avenue level.

Conversion of three rooms in the existing Science Building to wet/dry labs has been completed. The converted spaces are now in use. Some related capital improvements have been completed, while others will be completed in conjunction with the remaining building construction activity.

### Phase 3b

Subject to approval of the recommended actions, the new four-story, 49, 000 square foot Jefferson Avenue building will provide two levels for library expansion and classrooms and two levels of faculty/flexible office and other academic program/support space. The building also includes a partial basement and a connector bridge to the existing library building. The proposed project budget does not provide sufficient funds to fully build out all four floors concurrent with the project. UW Tacoma is currently analyzing its priority space needs, with the intent to defer build-out of the lower priority spaces until funding becomes available. The reduced project funding has resulted in the UW Tacoma campus being unable to fully meet the goals of the project. As a consequence, space for new academic program expansion, as well as faculty offices will remain extremely limited.

**UNIVERSITY OF WASHINGTON  
CAPITAL PROJECTS OFFICE - SUMMARY PROJECT BUDGET  
ALTERNATE PROCUREMENT - GCCM**

PROJECT: UW Tacoma Phase 3

Project Number: 200636

ESTIMATED DATE OF COMPLETION: January 2012

	<u>Total Escalated Cost</u>	<u>% of TPC*</u>
<b>BUDGET SUMMARY:</b>		
PREDESIGN	\$ 335,164	1%
BASIC DESIGN SERVICES	\$ 3,256,782	6%
EXTRA SERVICES/REIMBURSABLES	\$ 2,062,004	4%
OTHER SERVICES	\$ 1,480,926	3%
DESIGN SERVICES CONTINGENCY	\$ 675,154	1%
<b>CONSULTANT SERVICES **</b>	<b>\$ 7,810,030</b>	<b>14%</b>
CONSTRUCTION CONTRACT	\$ 33,983,667	63%
OTHER CONTRACTS		
CONSTRUCTION CONTINGENCY	\$ 2,205,006	4%
SALES TAX	\$ 3,365,547	6%
<b>CONSTRUCTION COST</b>	<b>\$ 39,554,220</b>	<b>73%</b>
EQUIPMENT	\$ 2,461,992	5%
ARTWORK	\$ 129,000	0%
OTHER COSTS	\$ 1,315,406	2%
PROJECT ADMINISTRATION	\$ 2,844,343	5%
RELATED PROJECTS/MITIGATION	\$ 185,009	0%
<b>OTHER COSTS</b>	<b>\$ 6,935,750</b>	<b>13%</b>
<b>TOTAL PROJECT COST (TPC)*</b>	<b>\$ 54,300,000</b>	<b>100%</b>

Included in Above:

Escalation not applicable

**SOURCE OF FUNDS:**

State Bldg Constr Acct (07/09)	\$ 6,150,000
State Bldg Constr Acct	\$ 16,768,000
UW Building Acct	\$ 14,007,000
UWT Reserves	\$ 4,500,000
Long-term Debt	
UWT Building Fee	\$ 7,450,000
REO	\$ 5,425,000
<b>TOTAL SOURCE OF FUNDS</b>	<b>\$ 54,300,000</b>



**UW Tacoma Phase 3 - Base Case Proforma FY 2008 - FY 2018**

<b><u>UW Tacoma</u></b> (\$000)	<b>FY 2008</b> <b>(Actual)</b>	<b>FY 2009</b> <b>(Actual)</b>	<b>FY 2010</b> <b>(Budget)</b>	<b>FY 2011</b> <b>(Budget)</b>	<b>FY 2012</b> <b>(Budget)</b>	<b>FY 2013</b> <b>(Budget)</b>	<b>FY 2014</b> <b>(Budget)</b>	<b>FY 2015</b> <b>(Budget)</b>	<b>FY 2016</b> <b>(Budget)</b>	<b>FY 2017</b> <b>(Budget)</b>	<b>FY 2018</b> <b>(Budget)</b>
<b><u>Revenue</u></b>											
State funding	22,679	24,163	20,387	19,078	19,078	19,078	20,620	22,428	24,236	26,334	28,432
Tuition (operating fee)	13,758	16,783	19,869	21,348	22,401	23,311	26,468	29,441	33,958	39,157	45,774
Tuition (building fee)				445	445	445	445	445	445	445	445
Property rental & other income	43	52	51	481	481	481	481	481	481	481	481
<b>Total revenue</b>	<b>36,481</b>	<b>40,998</b>	<b>40,307</b>	<b>41,352</b>	<b>42,405</b>	<b>43,315</b>	<b>48,014</b>	<b>52,796</b>	<b>59,120</b>	<b>66,417</b>	<b>75,132</b>
<b><u>Expenses</u></b>											
Salaries& benefits	25,841	28,191	28,200	28,200	28,200	29,046	32,227	36,079	40,128	44,352	49,290
Operating expenses	4,121	5,118	9,287	9,162	9,261	9,539	9,875	10,493	10,902	12,412	12,972
Deferred maintenance	150	150	150	150	155	159	164	169	174	179	184
New program expenses				225	225	749	1,458	1,548	2,988	2,092	2,282
Overhead	2,169	2,438	2,308	2,628	2,715	2,765	3,080	3,523	3,945	4,426	5,016
<b>Total expenses</b>	<b>32,281</b>	<b>35,896</b>	<b>39,945</b>	<b>40,365</b>	<b>40,555</b>	<b>42,258</b>	<b>46,804</b>	<b>51,813</b>	<b>58,136</b>	<b>63,461</b>	<b>69,744</b>
<b>Net income (before debt service)</b>	<b>4,200</b>	<b>5,102</b>	<b>362</b>	<b>988</b>	<b>1,850</b>	<b>1,057</b>	<b>1,210</b>	<b>983</b>	<b>984</b>	<b>2,955</b>	<b>5,388</b>
Debt service (Building Account)				445	445	445	445	445	445	445	445
Debt service (ILP)				430	430	430	430	430	430	430	430
<b>Net income (after debt service)</b>	<b>4,200</b>	<b>5,102</b>	<b>362</b>	<b>113</b>	<b>975</b>	<b>182</b>	<b>335</b>	<b>108</b>	<b>109</b>	<b>2,080</b>	<b>4,513</b>
<b>Debt service coverage (ILP only)</b>				<b>1.26</b>	<b>3.27</b>	<b>1.42</b>	<b>1.78</b>	<b>1.25</b>	<b>1.25</b>	<b>5.84</b>	<b>11.50</b>
<b>Debt service coverage (Overall)</b>				<b>1.13</b>	<b>2.11</b>	<b>1.21</b>	<b>1.38</b>	<b>1.12</b>	<b>1.12</b>	<b>3.38</b>	<b>6.16</b>
Beginning fund balance	8,764	12,964	18,066	18,428	18,541	15,016	15,198	15,533	15,641	15,750	17,830
Capital expenditures from reserves					4,500						
<b>Ending fund balance</b>	<b>12,964</b>	<b>18,066</b>	<b>18,428</b>	<b>18,541</b>	<b>15,016</b>	<b>15,198</b>	<b>15,533</b>	<b>15,641</b>	<b>15,750</b>	<b>17,830</b>	<b>22,343</b>

NOTE: For purposes of qualifying for the ILP, coverage is calculated excluding the revenue and debt service associated with the building fee. This debt service is mandated by statute and is assumed to be available on a 1:1 basis. Including the revenue and debt service from the Building Fee dilutes debt service coverage and understates actual coverage.