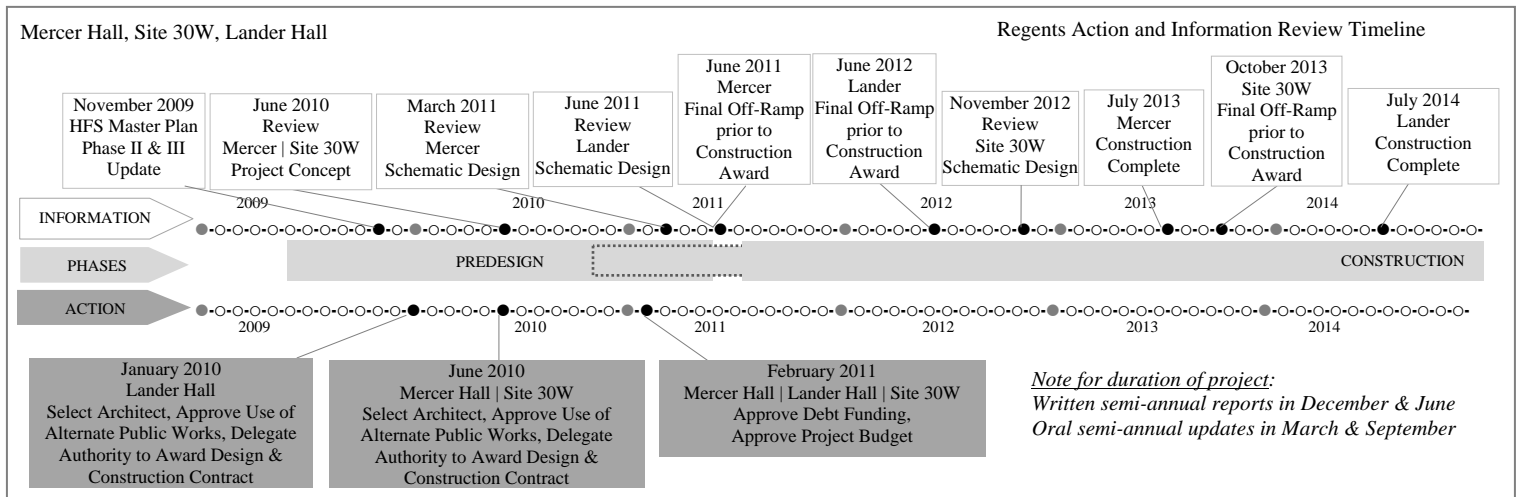


VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase II: Mercer Hall Replacement, Lander Hall Replacement, and Site 30W Projects – Approve Debt Funding and Approve Project BudgetsRECOMMENDED ACTION:

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

- 1) The Student Housing Phase II total project budget of \$257,000,000 composed of the following subprojects:

a. Mercer Hall Replacement	\$118,000,000
b. Lander Hall Replacement	\$ 77,000,000
c. Site 30W	<u>\$ 62,000,000</u>
	<u>\$257,000,000</u>
- 2) The use of the Internal Lending Program to fund up to \$286,100,000 for design, construction, furniture, fixtures, equipment, and financing costs (includes \$29,100,000 in ILP interest during construction and cost of issuance).

BACKGROUND:

The University of Washington has a goal of providing quality housing for its students and encouraging on-campus residency. Residential on-campus housing

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase II: Mercer Hall Replacement, Lander Hall Replacement, and Site 30W Projects – Approve Debt Funding and Approve Project Budgets (continued p. 2)

provides a community of young scholars that are immersed in a carefully structured living and learning environment with the opportunity to mature and be successful in their educational pursuits.

To achieve this goal, the department of Housing and Food Services (HFS) developed a comprehensive Housing Master Plan that proposes to add approximately 2,195 new beds over a ten-year period with a total project budget of approximately \$842.5 million. The plan was first presented to the Board in March 2008, and identified several crucial issues with student housing at the University. These include extensive life-cycle maintenance needs in the current stock of mid-20th 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 master plan has been updated to address the need to accommodate increased out-of-state and international enrollments.

The individual projects in the 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, (as described below) at key points throughout each phase of implementation. The financial analysis tests for the independent financial feasibility of each phase.

PHASE II REFINEMENTS:

Since the November 2010 Board of Regents presentation, the Phase II project schedule and budgets have been refined. The Site 30W project, previously scheduled for occupancy in August 2014, has been delayed by one year; the revised construction start date is December 2013 with occupancy scheduled for August 2015. With occupancy of the Mercer Hall Replacement project scheduled for August 2013, the revised construction start date on Site 30W will enable HFS to have firm occupancy data on the Mercer Hall project before proceeding with construction on Site 30W. Having firm occupancy data on the Mercer Hall project prior to starting construction on Site 30W will enhance occupancy risk management of Phase II.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase II: Mercer Hall Replacement, Lander Hall Replacement, and Site 30W Projects – Approve Debt Funding and Approve Project Budgets (continued p. 3)

The proposed Phase II project budget has been increased from \$245.5 million to \$257 million to reflect escalation for the one-year delay of Site 30W, additional parking in the Mercer Hall project, and refinement of the Mercer Hall project cost forecast based upon the most recent contractor estimate.

PHASE II PROJECT:

Phase II of the master plan proposes to replace Mercer Hall and Lander Hall and to construct a new apartment building on site 30W. These projects will add 1,830 new and replacement beds for a net addition of 762 beds (from the 2010 HFS base line) after accounting for the elimination of overcrowding and the vacating of Terry Hall for renovation as part of Phase III.

Mercer Hall Replacement Project: The Mercer Hall site (considered a single site for project planning purposes) presently encompasses the existing Mercer residence hall, an adjacent parking lot with 70 parking stalls (site 29W), and open space (site 42W). Consistent with the goals of the master plan, Mercer Hall will be replaced for programmatic and economic reasons. Mercer Hall currently provides 455 residence beds. The redevelopment of the Mercer Hall site includes 150-200 below-grade parking spaces with approximately 930 student apartment beds in five separate buildings above the parking garage. The buildings will take advantage of the 65 foot height limit for this site. The Mercer site is envisioned as part of a village focusing on upper-division undergraduate and graduate students living in apartment-style housing.

Lander Hall Replacement Project: Lander Hall currently provides approximately 833 residence hall beds. Lander Hall was originally designed for two beds per room and is currently occupied with three beds per room. A program goal is to eliminate the triple bed configurations. Replacement of Lander Hall as part of Phase II will include a combination of approximately 550 residence style and student apartment beds. The new Lander Hall will also contain kitchen and dining facilities for the west of 15th Avenue residence halls, a regional information and service desk, and entry to new below-grade parking to replace the existing surface and below-grade parking.

Site 30W Project: Site 30W is an existing University parking lot, with approximately 39 parking stall, located west of Condon Hall that will support the development of approximately 350 student apartment beds. Parking for the site 30W apartment building will be accommodated in the Cedar

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase II: Mercer Hall Replacement, Lander Hall Replacement, and Site 30W Projects – Approve Debt Funding and Approve Project Budgets

(continued p. 4)

Apartment parking lot located diagonally across from site 30W. A ten-story building will take advantage of the 105 foot height limit for this site.

PHASE II PROJECT SCHEDULE:

Mercer Hall Replacement

Architect selection	June 2010
Predesign	June 2010 – October 2010
Design	November 2010 – October 2011
Construction	July 2011 – July 2013
Occupancy	August 2013

Lander Hall replacement

Architect selection	January 2010
Predesign	March 2010 – October 2010
Design	November 2010 – May 2012
Construction	July 2012 – July 2014
Occupancy	August 2014

Site 30W

Architect selection	June 2010
Predesign	June 2010 – June 2012
Design	July 2012 – October 2013
Construction	December 2013 – July 2015
Occupancy	August 2015

PHASE II PROJECT BUDGET:

The proposed Housing Master Plan Phase II total project budget is \$257,000,000. This is composed of the following:

Mercer Hall Replacement	\$ 118.0 million
Lander Hall Replacement	\$ 77.0 million
Site 30W	\$ 62.0 million
<hr/>	
TOTAL	\$ 257.0 million

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase II: Mercer Hall Replacement, Lander Hall Replacement, and Site 30W Projects – Approve Debt Funding and Approve Project Budgets
(continued p. 5)

FINANCING PLAN

The sources and uses for the project are as follows:

<u>Sources of Funds</u>	<u>(\$MM)</u>
Housing and Food Services	7.0
Internal Lending Program	279.1
Total, Sources of Funds	286.1

<u>Uses of Funds</u>	
Design/Construction Cost	244.7
Furniture, Fixtures and Equipment	12.3
ILP interest during construction	26.3
ILP cost of issuance	2.8
Total, Uses of Funds	286.1

Annual debt service	19.0
Repayment source: HFS Housing revenue	

CREDIT ANALYSIS:

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

Phase II Off-ramps

Off-ramps provide an opportunity to adjust project scope and/or timing in response to changing circumstances. For the Phase II projects, HFS has identified three off-ramps (one for each project). In addition to occupancy rates for existing on-campus housing, each off-ramp will consider occupancy rates for recently completed projects. Other factors in the consideration to proceed with a particular project include an evaluation of any local, regional, or national event 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.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase II: Mercer Hall Replacement, Lander Hall Replacement, and Site 30W Projects – Approve Debt Funding and Approve Project Budgets (continued p. 6)

Mercer Hall Replacement Project Off-Ramp: The first off-ramp occurs in June 2011 for the Mercer Hall project. If the estimated Fall 2011 occupancy for on-campus housing is less than 90% and the leased rate for Cedar Apartments, as of the date of the off-ramp, is less than 85% of design occupancy, then the project will be postponed or mitigation will be proposed to allow the project to proceed as planned

Lander Hall Replacement Project Off-Ramp: The second off-ramp occurs in June 2012 for the Lander Hall Replacement project. If the estimated Fall 2012 occupancy for on-campus housing is less than 90% and the leased rate for Elm and Alder Halls, as of the date of the off-ramp, is less than 85% of design occupancy, then the project will be postponed or mitigation will be proposed to allow the project to proceed as planned

Site 30W Project Off-Ramp: The third off-ramp occurs in October 2013 for the Site 30W project. If the actual Fall 2013 occupancy for on-campus housing is less than 90% and the actual occupancy for Mercer Hall, as of the date of the off-ramp, is less than 90% of the design occupancy, then the project will be postponed or mitigation will be proposed to allow the project to proceed as planned

Base Case and Stress Tests

Project debt will be repaid with revenue from new residence halls and apartments.

Base Case: 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 with reserve levels above targeted minimums.

Stress Tests: 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.

The analyses show that under either stress scenario, 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 two years at slightly below minimum and achieves

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Student Housing Phase II: Mercer Hall Replacement, Lander Hall Replacement, and Site 30W Projects – Approve Debt Funding and Approve Project Budgets (continued p. 7)

positive required reserves after four years at slightly below minimum. Under the more severe occupancy stress test, HFS achieves positive coverage after three years at slightly below minimum and moves toward positive required reserves after 2020.

Under the combined "worst case" stress scenario, ending reserve balances are depleted by 2018 and remain negative thereafter. HFS achieves positive coverage after five years at below minimum and fails to meet minimum required reserve levels after 2015. 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 a construction contract approved.
June 2010	Mercer Hall Site and Site 30W architect appointment approved, GC/CM alternative public works contracting and delegation to award a construction contract approved.

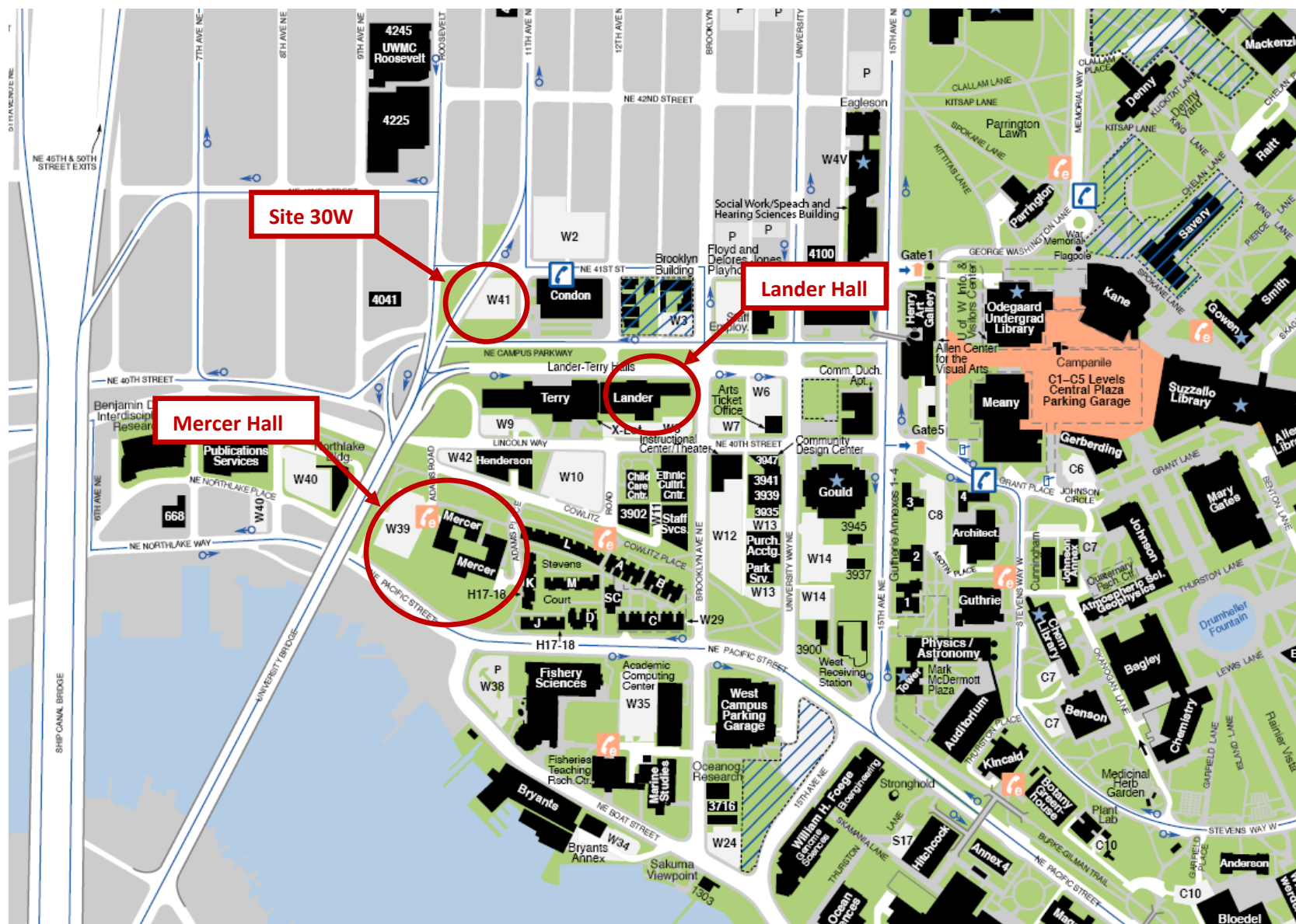
Attachments

Attachment A – Student Housing Locations Map

Attachment B – Capital Projects Office Design and Construction Budgets

Attachment C – Housing and Food Services Proforma

Attachment D – Summary of Stress Tests and Mitigation



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

PROJECT: Housing Phase 2

Project Number: Various (see attached)

ESTIMATED DATE OF COMPLETION: Various (see attached)

<u>Project Budget</u>	<u>Total Escalated Cost</u>	<u>% of TPC*</u>
Pre-Schematic Design Services	\$ 1,720,000	0.7%
A/E Basic Design Services	\$ 9,582,000	3.7%
Extra Services	\$ 5,913,000	2.3%
Other Services	\$ 2,639,000	1.0%
Design Services Contingency	\$ 2,049,000	0.8%
Consultant Services	\$ 21,903,000	8.5%
GC/CM Construction Cost	\$ 169,016,000	65.8%
Other Contracts	\$ -	0.0%
Construction Contingencies	\$ 14,555,000	5.7%
Sales Tax	\$ 17,439,000	6.8%
Construction	\$ 201,010,000	78.2%
HFS Equipment & Furnishings	\$ 12,264,000	4.8%
HFS Contingency	\$ 10,736,000	4.2%
Other Costs	\$ 4,992,000	1.9%
Project Management	\$ 6,095,000	2.4%
Other	\$ 34,087,000	13.3%
Total Project Cost (TPC)*	\$ 257,000,000	100.0%
<u>Included in Above:</u>		
Escalation at 3% per year	\$ 16,696,147	6.9%

**Housing and Food Services
FY 2009-2022 Base Case Proforma
HMP Phase II (\$000)**

	Audit 2009	Prelim 2010	Budget 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022
<u>Net Income</u>														
Operating Revenue	60,333	62,839	61,480	67,845	77,386	91,816	100,022	108,586	113,139	117,668	122,380	127,281	132,381	137,688
Operating Expense	46,447	47,984	49,738	51,843	57,193	60,713	63,575	66,700	69,075	71,543	74,108	76,773	79,543	82,431
Net Operating Income	13,886	14,855	11,742	16,002	20,193	31,104	36,447	41,885	44,064	46,125	48,272	50,509	52,838	55,257
Non Operating Income	2,925	2,869	2,889	2,987	2,402	2,589	2,484	2,657	2,783	2,927	3,096	3,289	3,508	3,732
Total Income Before Debt Svc. and Cap Ex.	16,812	17,725	14,630	18,989	22,595	33,693	38,932	44,542	46,846	49,052	51,368	53,798	56,346	58,988
<u>Debt Service</u>														
HFS Debt Service	5,941	6,426	8,506	12,512	16,356	16,366	16,364	16,359	16,363	16,358	16,358	16,358	16,356	16,358
Phase II Debt Service	-	-	-	-	-	7,781	14,267	18,621	19,017	19,017	19,017	19,017	19,017	19,017
Total Debt Services	5,941	6,426	8,506	12,512	16,356	24,147	30,631	34,980	35,380	35,375	35,375	35,375	35,373	35,375
HFS System Coverage	2.83	2.76	1.72	1.52	1.38	1.4	1.27	1.27	1.32	1.39	1.45	1.52	1.59	1.67
<u>Capital Expenses</u>														
HFS Capital Expenses	5,158	3,760	5,349	4,600	4,600	4,300	13,200	13,200	13,200	13,200	13,200	13,200	13,200	15,500
HFS Income After Debt Svc. and Cap Exp.	5,500	7,097	-446	1,377	1,139	4,945	-5,199	-3,938	-1,933	277	2,592	5,023	7,573	7,913
<u>Reserves</u>														
HFS Beginning Reserve Balance	12,472	17,972	25,069	24,623	26,000	27,139	32,084	26,885	22,947	21,014	21,291	23,883	28,906	36,480
Plus Income After Debt Svc. and Cap Ex.	5,500	7,097	-446	1,377	1,139	4,945	-5,199	-3,938	-1,933	277	2,592	5,023	7,573	7,913
Ending Reserve Balance	17,972	25,069	24,623	26,000	27,139	32,084	26,885	22,947	21,014	21,291	23,883	28,906	36,480	44,393
HFS Reserve Requirement	11,789	12,097	12,448	12,869	13,939	14,643	15,215	15,840	16,315	16,809	17,322	17,855	18,409	18,986
Over / (Under) Reserve Requirement	6,183	12,972	12,175	13,132	13,200	17,442	11,670	7,107	4,699	4,482	6,562	11,052	18,071	25,407

Summary of Stress Tests & Mitigation*
Housing Master Plan, Phase II (\$000)

2014 **2015** **2016** **2017** **2018** **2019** **2020** **2021** **2022**

Base Case

HFS system coverage	1.40	1.27	1.27	1.32	1.39	1.45	1.52	1.59	1.67
Ending reserve balance	32,084	26,885	22,947	21,014	21,291	23,883	28,906	36,480	44,393
Excess/(deficit) over reserve requirement	17,442	11,670	7,107	4,699	4,482	6,562	11,052	18,071	25,407

Occupancy Stress

HFS system coverage	1.28	1.19	1.18	1.23	1.28	1.33	1.39	1.44	1.50
Ending reserve balance	29,185	21,392	14,359	8,951	5,349	3,628	3,875	6,177	8,290
Excess/(deficit) over reserve requirement	14,543	6,177	(1,482)	(7,364)	(11,460)	(13,693)	(13,980)	(12,232)	(10,696)

Construction Inflation Stress

HFS system coverage	1.35	1.21	1.20	1.25	1.31	1.37	1.43	1.50	1.57
Ending reserve balance	31,344	24,614	18,601	14,523	12,634	13,039	15,852	21,194	26,853
Excess/(deficit) over reserve requirement	16,701	9,399	2,761	(1,792)	(4,174)	(4,283)	(2,003)	2,785	7,867

Combined Stress (Worst-Case)

HFS system coverage	1.24	1.13	1.12	1.16	1.20	1.25	1.31	1.36	1.42
Ending reserve balance	28,444	19,122	10,012	2,460	(3,308)	(7,216)	(9,180)	(9,109)	(9,250)
Excess/(deficit) over reserve requirement	13,802	3,907	(5,828)	(13,855)	(20,117)	(24,538)	(27,034)	(27,518)	(28,236)



Mitigation (for Worst-Case)**

HFS system coverage	1.26	1.25	1.26	1.25	1.26	1.25	1.31	1.36	1.42
Ending reserve balance	29,051	23,543	19,770	16,672	18,050	19,141	18,928	18,999	19,858
Excess/(deficit) over reserve requirement	14,530	9,091	4,997	1,047	1,670	1,820	1,074	590	872

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

**To achieve 1.25 times coverage, HFS annual operating budget would have to be reduced by amounts ranging between 1% and 8% per year (not cumulative) in 2014 - 2018. To meet the minimum reserve target, HFS would have to additionally reduce annual capital expenditures by amounts ranging between \$1 million and \$5 million (not cumulative) in 2017 - 2022..

Shaded areas:

- Debt service coverage below 1.25 times 
- Negative ending reserve balance 
- Did not meet minimum reserve target 