

VII. STANDING COMMITTEES

- B. Finance and Audit Committee
In Joint Session With
- C. Capital Assets Committee

Development of Educational Outreach Building by Educational Outreach Properties**RECOMMENDED ACTION:**

It is the recommendation of the administration, the Finance and Audit and Capital Assets Committees that the Board of Regents authorize the Executive Vice President or his designee to:

1. Execute a lease with Educational Outreach Properties (EOP), a non-profit subsidiary organization of the National Development Council, for a maximum term of 35 years, for the University of Washington property located on the southeast corner of Campus Parkway and University Way, providing for the development of the property as an office building for the UW Educational Outreach department (UWEO), the Visitors Center, and other campus users.
2. Approve, as required by the Internal Revenue Code:
 - a) EOP issuing up to \$17 million in tax-exempt bonds for the development of the project at a weighted average interest rate not to exceed 7.5% for no longer than the lease term;
 - b) EOP as a non-profit corporation, and;
 - c) The University's intent to accept unencumbered title when tendered by EOP when the non-profit's tax-exempt debt is retired.
3. Execute other documents and approvals required to complete the transaction.

BACKGROUND:

For over ten years, the various units of UWEO have been scattered throughout several locations. Two years ago, the building housing the central administrative unit was destroyed by fire resulting in further fragmentation. Sharing a single centrally located building will enable UWEO to make better use of resources, work more efficiently, and provide a single point of contact for the students and community members who interact daily with UWEO.

Development of Educational Outreach Building by Educational Outreach Properties (continued p. 2)

The building will be constructed on the University-owned site of the current UW Visitor's Information Center, located on the southeast corner of the intersection of NE Campus Parkway and University Way NE. The new building will also house the Visitor's Information Center and other UW units, which are currently occupying the building that will be demolished. The development model calls for a building of approximately 55,000 gross square feet, plus a minimum 20 space parking garage under the building.

DEVELOPMENT PROJECT:

Construction is expected to begin in December of 2005 and be completed by March of 2007. It is anticipated that the garage portion of the project will be completed no later than March of 2006.

The project will be constructed as public work. The University will enter into a design-build contract with an architect-builder team to be named by the selection jury on March 14, 2005. When the parking garage is completed, the design build contract will be assigned to EOP under the terms of a ground lease between the University and EOP. Following the execution of the ground and occupancy leases, the design-build team will assume all development risk.

The University Real Estate Office will negotiate a ground lease of the property with EOP for a term of no more than thirty-five years. The University will enter into an occupancy lease with EOP for approximately 13 years with extension options to coincide with the final payment on the bonds. Payments under the occupancy lease will commence only upon final completion of the project.

FINANCING STRUCTURE:

The total project cost of \$17.2M will be funded from two sources: tax-exempt lease revenue bonds issued by EOP and a \$6M contribution from UWEO.

Tax-exempt lease-backed bonds will be issued by EOP to finance the development. In order to secure the most cost effective lease rates, the lease will obligate the University to make payments from legally available, non-appropriated local funds. This is a broader revenue pool than the revenues which are directly responsible for the lease payments. When the bonds are retired, EOP is obligated to tender unencumbered title to the property to the University.

The overall occupancy costs of the building will be paid from UWEO and other non-appropriated local funds. As part of regular due diligence, Treasury Office has reviewed UWEO's financial position and is comfortable that it has sufficient resources to make lease payments.

Development of Educational Outreach Building by Educational Outreach Properties (continued p. 3)

REVIEW AND APPROVALS:

The lease, construction, and financing of the project have been recommended by the Vice Provost for Educational Outreach, the Director of Real Estate, the Vice Provost for Planning and Budgeting, the Vice President for Financial Management, and the Executive Vice President. This recommendation has been reviewed by the University's financial advisor and bond counsel.

ENCLOSURES:

Sources and Uses of Funds
Summary of Operating Revenue, Expenditures and Estimates

UWEO Building
Sources and Uses of Funds

Sources of Funds

Contribution from UWEO	6,000,000
Bond Proceeds	13,330,000
Total Sources of Funds	19,330,000

Uses of Funds

Design Costs	4,000,000
Construction Costs	13,224,000
Capitalized Interest	1,406,000
Cost of Issuance	700,000
Total Uses of Funds	19,330,000

University of Washington Educational Outreach Summary of Operating Revenue, Expenditures and Estimates

	Actual		Estimated	Projected			
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
<u>UWEO Revenue and Other Funding</u>							
Operating Funding - UWEO Operations	25,344,646	26,067,909	26,601,000	27,501,000	28,435,000	29,407,000	30,413,000
Operating Funding - Summer Quarter	<u>9,149,285</u>	<u>9,859,346</u>	<u>9,952,165</u>	<u>10,300,000</u>	<u>10,661,000</u>	<u>11,034,000</u>	<u>11,420,000</u>
Total Revenue and Other Funding	34,493,931	35,927,255	36,553,165	37,801,000	39,096,000	40,441,000	41,833,000
Operating Expenditures / Campus Disbursements	(31,705,410)	(29,985,774)	(33,569,174)	(35,189,000)	(36,857,000)	(38,580,000)	(39,826,000)
All - In Lease Costs Existing Facilities	(980,971)	(903,245)	(925,826)	(962,000)	(989,000)	(1,003,000)	(1,038,000)
All - In Lease Costs New Building (1)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(207,000)</u>	<u>(558,000)</u>	<u>(688,000)</u>
Total Expenditures	(32,686,381)	(30,889,019)	(34,495,000)	(36,151,000)	(38,053,000)	(40,141,000)	(41,552,000)
Total Net Revenue / (Loss)	1,807,550	5,038,236	2,058,165	1,650,000	1,043,000	300,000	281,000
Beginning Unrestricted Fund Balance (2)	6,078,803	7,886,353	12,924,589	8,982,754	10,632,754	9,675,754	9,975,754
Equity Contribution to Building & FFE	-	-	(6,000,000)	-	(2,000,000)	-	-
Ending Unrestricted Fund Balance	7,886,353	12,924,589	8,982,754	10,632,754	9,675,754	9,975,754	10,256,754
Ending Fund Balance as % of Operating Funding	23%	36%	25%	28%	25%	25%	25%

NOTES:

- (1) All-in lease costs include debt service, operations and maintenance, and reserves. This only reflects UWEO's share of the total building costs.
- (2) Fund balance is maintained as a reserve for program shortfalls and opportunities, obligations to tenured faculty-even if programs are eliminated, and an allowance for shifting economic conditions.

Assumptions:

- For planning continuing operations revenue and expenditures are projected at +3.5% /year after 2004, plus program expenditures/disbursements growth averaging \$625K per year.
- Some parts of operating funding will not achieve 3.5% annual growth in the short-term. Some expenditures are expected to increase at a greater rate.
- The few grants administered by UWEO are not included in operations revenue or expenditures