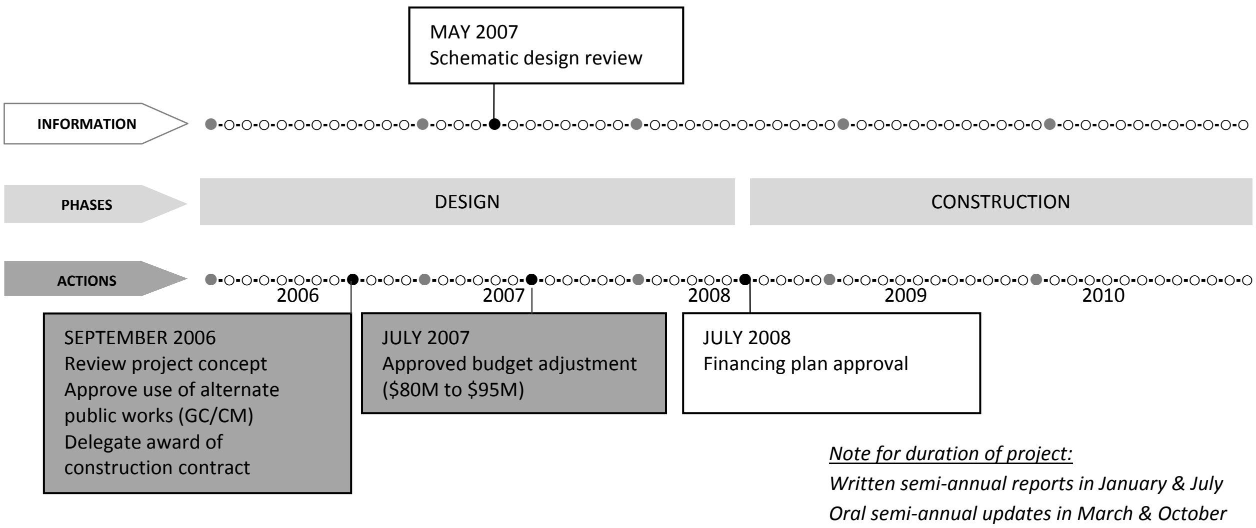
VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Business School Building Phase 1-PACCAR Hall – Financing Plan Approval



RECOMMENDED ACTION:

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the following actions be approved:

1. Financing the construction of the project through the issuance of up to $30 million in short-term notes and the issuance of long-term debt in the amount required to pay off the notes when UW General Revenue bonds are next issued; and

2. Delegation of authority to the President or his designee to execute documents as required to compete the interim and permanent financings, including the authority to set maturities and roll periods for the short term notes and enter into a rate lock prior to obtaining permanent financing.

BACKGROUND:

This project is part of a broader initiative to expand the teaching mission of the Michael G. Foster School of Business and to upgrade teaching facilities. The project will develop a new facility for the Business School complex that currently includes Balmer Hall, Mackenzie Hall, the Bank of America Executive Education

Business School Building Phase 1-PACCAR Hall – Financing Plan Approval
(continued p.2)

Center, the Boeing Auditorium, the Foster Business Library, and the Eastside Executive Center.

PACCAR Hall will house the executive education and Master's Degree programs, and will include undergraduate classrooms and an auditorium. The facility will provide approximately 130,000 gross square feet at an estimated project cost of $95 million. The project will be followed by a second-phase, State-funded building that will replace the existing Balmer Hall.

The Board of Regents approved a revised project budget of $95 million in July 2007. Construction is scheduled to begin in September 2008. Occupancy is scheduled for September 2010 and final closeout is scheduled for July 2011.

PROJECT FINANCING PLAN:

This project is being funded by contributions and new debt:

Source and Uses of Funds	($ millions)
Sources of funds:	
Contributions	76.0
Interest earnings	4.1
Reserves	8.9
Long-term debt	11.7
Total, sources of funds	100.7
Uses of funds:	
Project cost	95.0
Debt service during construction	5.4
Financing cost	0.3
Total, uses of funds	100.7

The Treasury Office has reviewed the facility revenue proforma and concludes that revenues from the Business School's expanded MBA program will be sufficient to service the new debt.

The requested $30 million in short-term borrowing authority reflects the peak borrowing amount during construction and before all pledges have been received. When all expected contributions have been received, the final long-term debt amount is expected to be about $11.7 million.

VII. STANDING COMMITTEES

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Business School Building Phase 1-PACCAR Hall – Financing Plan Approval
(continued p.3)

RISKS:

The primary financial risks associated with the project are shortfalls in expected contributions and lower than expected revenues from the expanded MBA program.

If only half of remaining contributions are received, the peak borrowing amount during construction increases to about $41 million from a projected $28 million and raises the long term debt to $36 million. The impact would be an increase in annual long-term debt service to $2.5 million from about $800,000. In this scenario, the School could still meet the minimum 1.25 debt service coverage over the life of the long term debt beginning with 1.8 times coverage in 2014, growing to 2.0 times coverage in 2017.

In a "worst case" scenario where, in addition to a shortfall in expected contributions, only half of the additional revenues from the expanded MBA program are realized, the project would financially break even. Debt service coverage would dip slightly below 1.0 in 2014 and would take an additional 5-7 years to reach 1.25.

REVIEWS AND APPROVALS:

The project financing plan has been reviewed and approved by the Provost and Executive Vice-President, the Senior Vice-President for Finance and Facilities, and the Vice-Provost for Planning and Budgeting.

Attachments
Proforma

Foster School of Business - Ten-Year Proforma ($ Thousands)

Operating Fund	Actual 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Growth Rate
Revenue											
State	19,535	20,575	21,398	22,253	23,144	24,069	25,032	26,033	27,075	28,158	
Gifts, interest, other	3,896	3,917	3,938	3,959	3,981	4,003	4,026	4,163	4,306	4,455	
Existing program fees	16,774	18,059	18,781	19,532	20,314	21,126	21,971	22,850	23,764	24,715	
Expanded program fees (1)	-	832	1,730	2,422	3,498	4,656	5,348	5,562	5,785	6,016	
Total Revenue	40,205	43,382	45,846	48,166	50,936	53,855	56,377	58,609	60,930	63,343	5%
Expenses											
Salaries & benefits	27,151	28,837	30,715	31,944	32,822	34,135	35,500	36,920	38,397	39,933	
Operating expenses, existing facilities	9,642	10,028	10,429	10,846	11,280	11,731	12,201	12,689	13,196	13,724	
Operating expenses, expanded program	-	34	278	323	608	683	921	958	997	1,037	
Overhead (2)	1,745	1,867	2,523	2,700	2,929	3,171	3,360	3,495	3,634	3,780	
Total Expenses	38,538	40,766	43,946	45,814	47,639	49,720	51,982	54,062	56,224	58,473	5%
Net income	1,667	2,616	1,901	2,353	3,297	4,135	4,395	4,548	4,706	4,870	13%
Debt service	-	-	-	-	-	-	-	891	799	799	
Debt service coverage	-	-	-	-	-	-	-	5.11	5.89	6.09	
Capital reserves	-	-	-	-	248	248	386	401	417	434	
Net transfer to Building Fund	6,484	-	-	-	-	-	-	-	-	-	
Operating reserves, beginning balance	8,463	3,646	6,262	8,162	10,515	13,564	17,451	21,460	24,716	28,205	14%
Operating reserves, ending balance	3,646	6,262	8,162	10,515	13,564	17,451	21,460	24,716	28,205	31,842	27%

Notes:
(1) Expanded program fees are from Executive MBA Program
(2) Overhead is assessed on self-sustaining portion of Business School operations

ATTACHMENT