

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee**Washington Dental Service Building for Early Childhood Oral Health – Budget and Financing Plan ApprovalRECOMMENDED ACTION:

It is the recommendation of the administration and the Finance, Audit and Facilities Committee to approve:

1. establishing the project budget of \$17,276,000 for the Washington Dental Service Building for Early Childhood Oral Health to be located in Sand Point Building 25;
2. financing the construction of the project through the issuance of up to \$13.0 million in short-term notes (commercial paper) 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
3. 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.

PROJECT DESCRIPTION

The project will renovate Building 25 at Sandpoint into a pediatric dental clinic and treatment center. Building 25 is an art deco building of approximately 23,000 gross square feet, formerly used as a Navy administration building.

Design services were placed on hold pending the resolution of an Affiliation Agreement between the University of Washington and Children's Hospital regarding use and funding participation in the project. The terms of this agreement were agreed to in April 2007.

Once the terms of the Affiliation Agreement were approved, ARC Architects was authorized to proceed with predesign services. These services were completed in December 2007, with the final Predesign Report being issued on January 18, 2008.

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PREVIOUS ACTION

In August 2005 the Board of Regents approved the award of an architectural contract to ARC Architects for the design of this project. The use of Alternative Public Works utilizing the GC/CM approach was authorized by the Board of Regents in November 2007, and the award of the GC/CM contract to Bayley Construction was approved by the Board of Regents in February 2008.

PROJECT SCHEDULE

The terms of the Affiliation Agreement between the University of Washington and Children's Hospital require that the Washington Dental Service Building for Early Childhood Oral Health be ready for occupancy in September 2010.

Key project milestones are as follows:

Architect Selection	Completed August 2005
Predesign	Completed December 2007
Design Completion	March 2009
Construction	April 2009 through August 2010
Occupancy and Use	September 2010

PROJECT BUDGET AND FUNDING

The preliminary project budget of \$17,276,000 has been confirmed by the Pre-Design Report. Pre-design funding of \$214,000 was provided by CASPO. The remaining funding will be as provided in the Joint Agreement between the University of Washington and Children's Hospital. Washington Dental Services is contributing 5 million toward the project through Children's Hospital, and initial funding of \$2 million has been received from Children's Hospital. Both Children's Hospital and the School of Dentistry have committed to fully funding the project.

PROJECT FINANCING PLAN

This project is being funded by contributions from Washington Dental Service and Children's Hospital, and new debt:

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Sources and Uses of Funds

Sources of funds:

Washington Dental Service	5,000,000
Children's Hospital	1,000,000
New debt, project funding	11,300,000
Capitalized interest & issuance cost	1,100,000
Total sources of funds	<u>18,400,000</u>

Uses of funds:

Renovation, Sand Point Building 25	17,300,000
Capitalized interest & issuance cost	1,100,000
Total uses of funds	<u>18,400,000</u>

Washington Dental Service's \$5,000,000 contribution will be received in increments during FY2008-FY2011. The University has received an initial \$2,000,000 payment and will receive separate \$1,000,000 payments in FY2009, FY2010, and FY2011. The Children's Hospital \$1,000,000 payment will be received in FY2012.

The bonds will be repaid from patient revenues and annual payments from Children's Hospital for partial occupancy of the building. Children's Hospital has also agreed to contribute \$500,000 for patient outreach expenses and to fund 30 percent of operating revenue shortfalls up to an aggregate total of \$1,000,000.

The Treasury Office has reviewed the ten-year facility revenue proforma and believes that patient revenues and annual Children's Hospital payments will be sufficient to service the new debt. Children's Hospital and Washington Dental Service have also analyzed the proforma in detail as part of the due diligence review for their financial participation in the project.

The primary financial risk to the facility is from patient revenues less than projected, but the facility sponsors have identified a pool of potential patients that has been confirmed by several sources, including the State, Children's Hospital, Washington Dental Service, and in the regional academic literature on pediatric dentistry. The \$500,000 patient outreach contribution from Children's Hospital,

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combined with a proposed ongoing program marketing expenditure, will support patient recruitment and retention efforts for the facility.

INTERNAL REVIEW 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.

SIGNIFICANT CONSTRUCTION RISKS AND OPPORTUNITIES

An ongoing risk is the continued climate of high escalation and “market conditions” in the Seattle commercial building marketplace that reflects an extremely busy construction industry and a limited pool of available equipment and skilled labor.

This project is historically significant and therefore subject to review and approval by local and state agencies. The challenge will be to meet the historical review requirements while meeting the programmatic and space requirements of the pediatric dentistry clinic.

The project presents a tremendous opportunity for the University, in partnership with Children’s Hospital and Regional Medical Center, to contribute to dramatic improvements in early childhood oral health, by implementing new clinical methods, expanding clinical services and providing greater visibility and accessibility to the community.

Attachments

Attachment 1 – Proforma

Attachment 2 – Site Plan

Attachment 3 – Budget

WDS Building for Early Childhood Health
Ten-Year Proforma, FY2011 - FY2020

(In Millions)

	FY2011	FY2012	FY2013	FY 2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Operating revenue	4.39	10.61	11.40	12.25	13.41	14.08	14.79	15.53	16.30	17.12
Operating expense	(4.36)	(7.34)	(7.82)	(8.34)	(8.77)	(9.18)	(9.60)	(10.05)	(10.52)	(11.01)
Net operating revenue	0.03	3.27	3.58	3.91	4.65	4.91	5.18	5.48	5.78	6.11
Debt service	-	(0.85)	(0.85)	(0.85)	(0.85)	(0.85)	(0.85)	(0.85)	(0.85)	(0.85)
Capital reserve	-	(0.20)	(0.20)	(0.21)	(0.21)	(0.22)	(0.23)	(0.23)	(0.24)	(0.25)
Cash flow after debt service/reserves	0.03	2.23	2.53	2.85	3.58	3.84	4.11	4.39	4.69	5.01
Cumulative ending fund balance	0.03	2.26	4.78	7.64	11.22	15.06	19.16	23.55	28.24	33.25
Debt service coverage	N/A	3.85	4.21	4.60	5.46	5.77	6.09	6.44	6.80	7.18

ATTACHMENT 1



Site Plan Washington Dental Service Bldg for Early Childhood Oral Health Project
200786

Project Budget 200786 Washington Dental Services Building

	<u>Total Escalated</u>	
	<u>Cost*</u>	<u>% of TPC</u>
Pre-Schematic Design Services	\$167,000	1.0%
A/E Basic Design Services	\$637,000	3.7%
Extra Services	\$294,000	1.7%
Other Services	\$430,000	2.5%
Design Services Constingecy	\$342,000	2.0%
Consultant Services	\$1,870,000	10.8%
Construction Cost	\$9,088,000	52.6%
Other Contracts		
Construction Contingencies	\$1,539,000	8.9%
Sales Tax	\$946,000	5.5%
Construction	\$11,573,000	67.0%
Equipment	\$2,650,000	15.3%
Artwork		
OtherCosts	\$159,000	0.9%
Project Management	\$1,024,000	5.9%
Other	\$3,833,000	22.2%
Total Project Cost (TPC)*	\$17,276,000	100.0%
<u>Included in above:</u>		
Escalation through December 2009	\$1,187,000	6.9%
<u>Source of Funds</u>		
CASPO	\$214,000	1.2%
Joint Agreement	\$17,062,000	98.8%
Total	\$17,276,000	100.0%

*Escalated to construction midpoint (December 2009)