

PRELIMINARY AGENDA

BOARD OF REGENTS
University of Washington

December 11, 2008
3:00 p.m.
UW Tower, Room T-22

(Item No.)

I. CALL TO ORDER

II. ROLL CALL

III. CONFIRM AGENDA

IV. REPORT OF THE CHAIR OF THE BOARD OF REGENTS: Regent Cole

V. REPORT OF THE UNIVERSITY PRESIDENT: Dr. Emmert

VI. CONSENT AGENDA

Purchase of Cavalier Apartment Building

F-1

VII. OTHER BUSINESS

VIII. DATE FOR NEXT REGULAR MEETING: January 15, 2009 in the Petersen Room of the Allen Library.

IX. ADJOURNMENT



**UNIVERSITY OF WASHINGTON
BOARD OF REGENTS**

**December 11, 2008
3:15 p.m.
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**UNIVERSITY OF WASHINGTON
BOARD OF REGENTS**

Finance, Audit and Facilities Committee
Regents Blake (Chair), Brotman, Jewell, Kiga, Simon

**December 11, 2008
3:00 to 3:15 p.m.
UW Tower, Room T-22**

1. **Purchase of Cavalier Apartment Building** **ACTION** F-1
Jeanette Henderson, Director, Real Estate Office
2. **Other Business**

December 4, 2008

TO: Members of the Board of Regents
Ex-officio Representatives to the Board of Regents
FROM: Joan Goldblatt, Secretary of the Board of Regents
RE: Schedule of Meetings

THURSDAY, DECEMBER 11, 2008

3:00 p.m.	UW Tower Room T-22	FINANCE, AUDIT AND FACILITIES COMMITTEE: Regents Blake (Chr), Brotman, Jewell, Kiga, Simon
3:15 p.m.	UW Tower Room T-22	REGULAR MEETING OF BOARD OF REGENTS

MINUTES

BOARD OF REGENTS University of Washington

December 11, 2008

The Board of Regents held its regular meeting on Thursday, December 11, 2008, beginning at 3:15 p.m. in the UW Tower, room T-22. The notice of the meeting was appropriately provided to the public and the press.

CALL TO ORDER

ROLL CALL

Assistant Secretary Keith called the roll: Present were Regents Gates and Willynck; Dr. Wise, Ms. Warren, and Ms. Goldblatt.

Participating by telephone were Regents Cole (presiding), Barer, Blake, Jewell, Kiga, Proctor, and Simon. Dr. Emmert joined the meeting by telephone.

Absent: Brotman; ex-officio representatives: Professor Lovell, Mr. Bennett, Ms. Faleschini, and Mr. Osterhout.

CONFIRM AGENDA

The agenda was confirmed as presented.

CONSENT AGENDA

Regent Cole noted there was one item for approval, and called for a motion.

MOTION: Upon the recommendation of the Chair of the Board and the motion made by Regent Blake, and seconded by Regent Proctor, the Board voted to approve agenda item F-1. Regent Kiga was not present for the vote.

Purchase of Cavalier Apartment Building (Agenda no. F-1)

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

1. Approve the purchase of the Cavalier Apartments property for \$6.4 million;
2. Approve the use of the Internal Lending Program to fund up to \$6.5 million in acquisition costs; and
3. Delegate to the president or his designee the authority to execute all documents related to this transaction.

December 11, 2008

See Attachment F-1.

STANDING COMMITTEES

ACADEMIC AND STUDENT AFFAIRS COMMITTEE: Regent Simon, Chair

The Academic and Student Affairs Committee did not meet on December 11, 2008.

FINANCE, AUDIT AND FACILITIES COMMITTEE: Regent Blake, Chair

Regent Blake summarized item F-1, the purchase of the Cavalier Apartment Building property for \$6.4 million, which included approval of the use of the Internal Lending Program to fund up to \$6.5 million in acquisition costs, and delegated authority to the President or his designee to execute all documents related to the transaction.

OTHER BUSINESS

Attorney General Jack Johnson told the Board the Public Employment Relations Commission (PERC) required the Board to hear a Notice to Employees. The Notice is attached to these minutes. Lou Pisano, University of Washington's Assistant Vice President of Labor Relations, read the notice to the Board.

Following Mr. Pisano's reading, Regent Gates asked who was responsible for the unfair labor practice. Mr. Johnson described the roles of the Attorney General's office and UW Human Resource's Office of Labor Relations, and said he believed the unfortunate set of circumstances leading to the delay is not an indication of the University's standard practice. Mr. Pisano assured the Regents system changes are in place to avoid this type of issue in the future.

Regent Cole said the following:

"I am not in a position to opine on the merits of this decision. I am aware that this is now the second time in a year that a party to a personnel dispute has gotten an order to read something before the Board of Regents. This is a highly peculiar mechanism for communicating a legal matter and I doubt that it is having whatever was the intended effect.

Having said that, we take very seriously our responsibility to be a good employer and are very respectful of personnel adjudication processes.

Because there are around 35,000 people employed by the UW, we obviously delegate the handling of personnel issues to the administration and are not interested in micromanaging individual cases.

This case, as I understand it, involves an allegation of damage or vandalism to public property. It is important that justice be done in every case and that the facts be carefully ascertained and acted upon appropriately.

Without reference to this particular case, I have discussed with Lou Pisano and our legal counsel how matters of this nature are typically handled. Where there is reasonable cause to believe that criminal behavior has been engaged in by any UW employee in a matter related to University property or safety, I would personally encourage—and strongly encourage—that such be reported to the appropriate law enforcement authorities.

These comments refer to general stewardship of the public trust and are not offered with respect to any particular case in question.”

DATE FOR NEXT MEETING

The next regular meeting of the Board of Regents will be held on Thursday, January 15, 2009, in the Petersen Room of the Allen Library.

ADJOURNMENT

The regular meeting was adjourned at 3:30 p.m.



Joan Goldblatt
Secretary of the Board of Regents



PUBLIC EMPLOYMENT RELATIONS COMMISSION

NOTICE TO EMPLOYEES

THE WASHINGTON PUBLIC EMPLOYMENT RELATIONS COMMISSION CONDUCTED A LEGAL PROCEEDING IN WHICH ALL PARTIES HAD THE OPPORTUNITY TO PRESENT EVIDENCE AND ARGUMENT. THE COMMISSION RULED THAT *THE UNIVERSITY OF WASHINGTON* COMMITTED UNFAIR LABOR PRACTICES IN VIOLATION OF STATE COLLECTIVE BARGAINING LAWS, AND ORDERED US TO POST THIS NOTICE TO EMPLOYEES:

WE UNLAWFULLY delayed our fulfillment of a request for information made by the Washington Federation of State Employees with regard to the discipline of a bargaining unit member.

TO REMEDY OUR UNFAIR LABOR PRACTICES:

WE WILL be timely in responding to information requests made by the union.

WE WILL NOT, in any other manner, interfere with, restrain, or coerce our employees in the exercise of their collective bargaining rights under the laws of the State of Washington.

DATED: Dec. 10 2008

University of Washington

BY: 
Authorized Representative

THIS IS AN OFFICIAL NOTICE AND MUST NOT BE DEFACED BY ANYONE.

This notice must remain posted for 60 consecutive days, and must not be altered or covered by any other material. Questions about this notice or compliance with the Commission's order may be directed to the Public Employment Relations Commission (PERC), 112 Henry Street NE, Suite 300, PO Box 40919, Olympia, Washington 98504-0919. Telephone: (360) 570-7300. The full decision will be published on PERC's web site, www.perc.wa.gov.

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee**Purchase of Cavalier Apartment BuildingRECOMMENDED ACTION:

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

1. Approve the purchase of the Cavalier Apartments property for \$6.4 million;
2. Approve the use of the Internal Lending Program to fund up to \$6.5 million in acquisition costs; and
3. Delegate to the president or his designee the authority to execute all documents related to this transaction.

BACKGROUND:

Property Description: The Cavalier Apartments, located at 1303 NE Campus Parkway at the corner of Brooklyn Ave NE and NE Campus Parkway, was constructed in 1926 and consists of approximately 52,250 GSF on a site that is 10,300 SF. The building has 48 residential units on 5 floors (studios and 1 bedroom units), one commercial unit (hair salon), and garage parking for 35 vehicles. Current zoning is MIO-105-MR (Major Institutional Overlay, 105' height limit, Multi-Family Residential). The property is owned by the Raden Family LLC. All of the other property on this block is owned by UW.

Purpose and Benefit: Purchase of the Cavalier Apartments is a component of Housing and Food Services' (HFS) Master Plan, and the site has been identified for future student housing. UW Campus Plan Site 35, which contains the Cavalier Apartments, will be redeveloped in the first phase of the Housing Master Plan. Demolition of the Cavalier and subsequent redevelopment of Site 35 will result in a residence hall for 450-500 undergraduate students. Design is currently underway by Mahlum Architects.

Purchase of Real Estate: A purchase price of \$6.6 million was originally negotiated with the seller. After the November Regents meeting, further negotiations resulted in a reduction of the price to \$6.4 million, with all other terms remaining the same.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Purchase of Cavalier Apartment Building (continued p. 2)

The Purchase and Sale Agreement for the Cavalier contains the following essential business terms:

- Seller: The Raden Family, LLC
- Purchase Price: \$6,400,000
- Closing Date: December 31, 2008
- Contingencies:
 - UW approval of property condition
 - UW approval of title report
 - Regent and HEC Board Approval

Current market information:

Although the national and regional economies have declined over the past 6 months and recovery is not expected for 12 or more months, the apartment sector is likely to fare better than most property types. According to Dupre + Scott, vacancy rates in North Seattle were 2.3% in October 2008 and have a five-year average of 3.2%. The University District is unique because the student population stabilizes this market and provides continuous demand.

The first appraisal of the property was in March 2008 at \$6,600,000. A second appraisal was obtained to determine the impact of current economic conditions on the market value. This new appraisal, as of December 2, 2008, places the market value at \$6,200,000. The major difference between the two appraisals is in the income approach to value, due to the capitalization rate moving from 5% to 5.75%. It should be noted that the second appraiser used a vacancy rate of 4%, which is conservative compared to the 2008 vacancy rate and five-year average for the area, and the sales comparison approach resulted in a value of \$6,600,000 in both appraisals.

The property continues to be fully occupied, and no decrease in Net Operating Income was demonstrated during the interim between the two appraisals.

Property Condition:

Phase 1 and Phase 2 environmental assessments have been completed and show no environmental issues. A building condition assessment was completed and only minor items were noted. The building is not on local, state or federal historic registers, but it is listed on Seattle's "Potentially Eligible" Historic Resources Survey.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Purchase of Cavalier Apartment Building (continued p. 3)

Financing Plan:

Although this building site is a key element of the Housing Master Plan and is planned for demolition, for purposes of financial analysis the base-case assumption is that the building continues to be operated as apartments with potential conversion to student housing. The property acquisition is affordable to HFS and is not dependent on successful future phases of the Housing Master Plan. Over the planning period, HFS debt service coverage averages 2 times and available reserve balances average \$18 million per year (see financial analysis spreadsheet attached).

Interim Management Plan:

Until demolition, the existing apartment rentals will be continued with current tenants and managed by a third-party property manager. Interim management is expected through June 2010, at which time the property would be fully vacated in preparation for demolition. Tenant relocation requirements may apply and the interim management plan will consider the appropriate tenant relocation process. If for any reason demolition isn't feasible, the building will be converted to student use with management by HFS.

REVIEW & APPROVAL

Purchase of the Cavalier Apartment Building and financing of the purchase price has been reviewed and recommended for approval by the Senior Vice President, Finance & Facilities, the Vice Provost, Student Life, the Director of Housing & Food Services, the Assistant Vice President, Treasury, and the Director of Real Estate.

Attachments:

1. Map
2. Proforma

Housing and Food Services Summary Proforma FY 2008-2018
Cavalier Purchase as Standalone

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Operating Revenue (1)	55,758	58,151	60,917	63,341	65,862	68,484	71,210	74,044	76,992	80,058	83,245
Total Operating Expense	43,790	47,392	49,393	51,369	53,423	55,560	57,783	60,094	61,939	63,859	65,854
Net Operating Income	11,968	10,759	11,524	11,973	12,439	12,923	13,427	13,950	15,053	16,199	17,391
Operating Income Public Private Partnerships	7,625	7,930	8,248	8,578	8,921	9,278	9,649	10,035	10,436	10,853	11,288
Non Operating Income	3,789	2,512	2,591	2,716	2,834	2,972	2,773	2,678	2,862	3,064	3,285
Total Income Before Debt Service and Capital Expenses	15,757	13,272	14,115	14,688	15,273	15,895	16,200	16,629	17,915	19,263	20,675
Debt Service											
HFS Debt Service	5,766	5,749	5,746	5,736	5,739	5,741	5,175	5,173	5,169	5,175	5,168
Cavalier Debt Service	-	241	481	481	481	481	481	481	481	481	481
Public Private Debt Service	6,243	6,204	6,312	6,421	6,540	6,653	6,718	6,797	6,894	6,902	6,875
Total Debt Service	12,009	12,194	12,539	12,638	12,760	12,875	12,374	12,451	12,544	12,558	12,524
HFS System Coverage	2.73	2.22	2.27	2.36	2.46	2.55	2.86	2.94	3.17	3.41	3.66
Total System Coverage (2)	1.75	1.66	1.71	1.77	1.83	1.89	2.02	2.07	2.19	2.33	2.48
HFS Capital Expenses (3)	5,300	6,862	7,214	6,188	6,761	7,646	8,663	9,829	11,168	12,704	14,469
HFS Income after Capital Expenses and Debt Service	4,690	420	674	2,283	2,292	2,026	1,881	1,145	1,098	903	558
HFS Beginning Reserve Balance	8,077	12,768	13,188	13,862	16,145	18,437	20,463	22,345	23,490	24,588	25,491
Plus HFS Income	4,690	420	674	2,283	2,292	2,026	1,881	1,145	1,098	903	558
Ending Reserve Balance	12,768	13,188	13,862	16,145	18,437	20,463	22,345	23,490	24,588	25,491	26,049
Reserve Balance distribution											
Repair and Replacement Fund	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Facility Improvement Fund	8,476	8,666	9,106	11,140	13,171	14,924	16,874	18,342	19,748	20,944	21,778
Retail and Remote Fund	1,291	1,521	1,756	2,005	2,266	2,540	2,471	2,148	1,840	1,547	1,270
Total Reserve	12,768	13,188	13,862	16,145	18,437	20,463	22,345	23,490	24,588	25,491	26,049

NOTES:

- (1) Includes Housing and Dining System and Retail and Remote
- (2) Includes debt service for Housing and Dining System, Retail and Remote, and Public Private Partnerships
- (3) Includes \$2.7M in capital expenses for Cavalier upgrades in FY 2009-2010

Attachment 2