

STANDING COMMITTEES

Finance and Asset Management Committee

Approve Intercollegiate Athletics Basketball Training/Operations Facility and Health & High Performance Center

RECOMMENDED ACTION

It is the recommendation of the administration and the Finance and Asset Management Committee that the Board of Regents approve for the Intercollegiate Athletics Basketball Training/Operations Facility and Health & High Performance Center:

- 1) use of the site adjacent to Hec Edmundson Pavilion, current site of Pavilion Pool;
- 2) the project budget of \$60.5 million;
- 3) the funding plan, including the use of the Bridge Program with a maximum borrowing of \$12.5 million; and
- 4) delegation of authority to the President or her designee to execute a contract with a Design/Builder.

BACKGROUND

In 2014, Intercollegiate Athletics (ICA) funded a predesign study for the development of a Basketball Operations Building. The new building site, located on the current location of the Pavilion Pool, adjacent to the east of the Hec Edmundson Pavilion complex, will be the home for both men's and women's basketball.

The current strength and conditioning facility is located in a building next to the Pavilion Pool. The new Health & High Performance Center (H2P) will include a renovation of the existing facility (weight room and Legends Center), as well as expanded square footage as part of the construction of the operations center. The H2P will serve student-athletes competing in men's and women's basketball along with all Olympic sport student-athletes.

In early 2019, ICA and UW Facilities partnered to conduct a benchmark study providing the basis for the development of a new, approximately 60,000 – 70,000 Gross Square Foot (GSF) building, along with an approximately 14,000 GSF renovation of existing space. This collaborative design will allow for optimal and efficient services for our student-athletes in all sports except football.

STANDING COMMITTEES

Finance and Asset Management Committee

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Attachments

1. ICA Basketball Training/Operations Facility and Health & High Performance Center Project Summary
2. ICA Basketball Training/Operations Facility and Health & High Performance Center Project Background
3. ICA Basketball Training/Operations Facility and Health & High Performance Center Financing Plan and Credit Analysis
4. ICA Basketball Training/Operations Facility and Health & High Performance Center Site Plan

ICA Basketball Training/Operations Facility and Health & High Performance Center Project Summary

Regent Actions

Regent Actions:
February 2020

- Use of site adjacent to Hec Edmundson Pavilion (current site of Pavilion Pool)
- Project Budget of \$60.5 million
- Use of Bridge Program with a maximum borrowing of \$12.5 million
- Delegation of authority to the President or her designee to execute a contract with a Design/Builder

Goals

1. Provide a first-class "home" for men's and women's basketball that makes the training and development of our student-athletes the top priority with 24-7 practice courts a primary driver. The facility will build champions, grow community and celebrate our Husky past, present and future.
2. The renovation and expansion of the Health & Human Performance Center will allow our commitment to the performance and wellness of all student-athletes to be paramount. By synergizing the areas of sport performance, athlete training, nutrition and wellness we will better serve the physical and mental demands of our student-athletes.
3. Consolidate services to better serve the overall performance of our student-athletes and the university's commitment to Title IX. Construction of space must be developed in the best interest of the student-athletes and efficiently address their time demands.
4. The project will be cost effective and the facilities look and feel will be in alignment with recent ICA Capital Projects which we call "Northwest Sensible." Architecture will flow with the ICA footprint and branding will align with our values.

Description

The project will build a new, approximately 60,000 - 70,000 square foot Basketball Operations Building providing practice courts, locker rooms, meeting rooms, coaches and support staff offices, recruiting lounge, and other spaces associated with the two basketball programs. The new building, along with a 14,000 square foot renovation of the weight room and Legends Center in Graves Annex, will also contain new support facilities for basketball and the other Olympic sport programs by ways of athletic training, strength and conditioning, sports medicine and rehabilitation, and nutrition. The Pavilion Pool building will be demolished and replaced with the new building which will be structurally independent from, yet connected, to the Hec Edmundson complex to allow for game day synergies between the two buildings. Creating a state of the art new facility will allow the UW Basketball programs to continue their success and ability to compete with the elite national programs.

Financials

<u>Proposed Predisign, Design/Precon, Enabling Budget</u>				<u>Proposed Funding</u>			
Construction Cost	\$	49,059,383	81%	Donor Funds	\$	51,562,946	85%
Consultant Services	\$	5,911,679	10%	ICA - Cash Reserves (Backstop)	\$	8,978,980	15%
Equipment	\$	1,596,450	3%				
Other Costs	\$	1,804,209	3%				
Project Management	\$	2,170,205	4%				
Total Project Cost*	\$	60,541,926	100%	Estimated Total Funds	\$	60,541,926	100%

* Does not include University Advancement gift fees on pledges paid after February 2020, which are estimated at \$1.25 million

Benchmarks

Arizona State University Weatherup Center	\$806	Project cost/GSF
University of Arizona Richard Jefferson Gym & Davis Strength Center	\$758	Project cost/GSF
Oregon State University Basketball Center	\$756	Project cost/GSF
University of Houston Guy V. Lewis Basketball Center	\$751	Project cost/GSF
University of Utah Huntsman Basketball Center & Sorenson High Performance	\$733	Project cost/GSF

(Escalated to June 2022, midpoint of construction + regional adjustment)

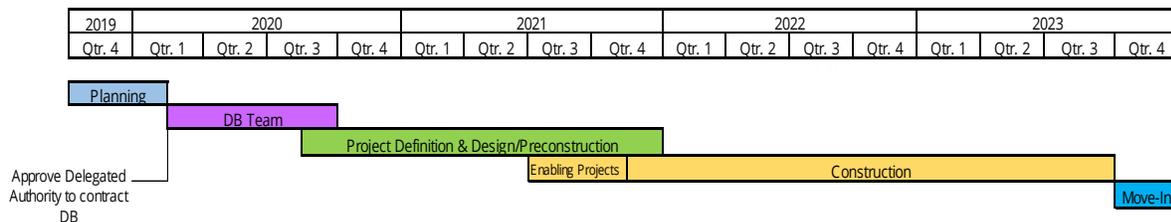
Metrics & Indicators

	<u>Targets</u>		<u>Targets</u>
Net Assignable SF	62,000	Construction Cost/GSF	\$613
Gross SF	80,000 (combined new and renovated)	Project Cost / GSF	\$757
Efficiency (NASF/GSF)	78%	Operating Costs/GSF*	\$13.00

(Metrics to be refined during the predisign)

*ICA will fund O&M for the project through operating revenues, as is the case for all other ICA buildings in the Athletics Village.

Schedule



ICA Basketball Training/Operations Facility and Health & High Performance Center Project Background

Project Background

Basketball Training and Operations Facility

The University of Washington men's and women's basketball programs enjoy playing in one of the greatest home venues in all of college basketball. The historically significant Hec Edmundson Pavilion was originally built in 1927 and renovated in 1998. The Pavilion, now named Alaska Airlines Arena, serves as the primary competition facility for the men's and women's basketball programs, women's volleyball and women's gymnastics. The building possesses uncommon character with its neo-gothic architecture and intimate seating bowl, which serve to provide a dynamic experience for participants and spectators alike. Although smaller than many Power 5 and Pac-12 venues, the intimate and historic building provides for an excellent and unique home court advantage.

The primary purpose of the late 90's renovation was to modernize and improve the building's function, add additional student-athlete support services, and create an improved game day experience for fans. Due to the adoption of Title IX into law, women's athletics has essentially doubled the demand for space in the building. Although the renovation provided improved function 20 years ago, the building's modest footprint limited growth opportunities to better serve our students.

The UW is currently one of the few schools in a Power 5 conference that does not provide dedicated training/practice facilities for its basketball programs. Space limitation along with sponsoring four arena sports programs creates significant scheduling and training conflicts that can negatively impact our student-athletes' ability to meet the scheduling demands of their academic responsibilities and training. The Husky men's and women's basketball teams, along with the women's volleyball team, compete at an elite level and are at times at a competitive disadvantage when it comes to training access. Additionally, women's basketball and women's volleyball currently share a film/preparation space, with neither program enjoying their own dedicated space for practice, training and game preparation.

A new Basketball Training/Operations Facility will provide a "home" for both programs. A dedicated entrance will allow for improved branding of the storied programs. The majority of the square footage will be dedicated to practice courts. The facility will also include

locker rooms, player lounges, coaches and staff locker rooms, film rooms, conference rooms and other related spaces associated with the two programs. The location also allows for student-athletes to have easy access to the renovated/expanded Health & High Performance Center.

The construction of the Basketball Training/Operations Facility will also address Title IX needs. Volleyball will have their own dedicated practice facility (Harshman Court) and will be able to repurpose currently shared space with women's basketball.

Health and High Performance Center (H2P)

The current strength and conditioning facility serving our students is over 30 years old. Built in 1987, the current space limits the ability to adopt modern strength and conditioning training programs, and is unable to accommodate staffing growth for this critical area. In 1998, a central medical training room was built as part of the Hec Edmundson renovation. Located on the ground floor of Hec Edmundson, this space is outdated and the limited square footage cannot accommodate the equipment and treatment space needed for the modern athlete.

Over the last 10 years, Husky Athletics has demonstrated a higher commitment to health and high performance. We have significantly grown our health and performance related services in the areas of strength and conditioning, nutrition, mental health/wellness, preventative health programs, rehabilitation, medical services and research. While our current services are high quality, they require collaboration, synergy and integration. Our current spaces are over capacity and lack coordination in location/proximity.

A renovated and expanded Health and High Performance Center (H2P) will allow for strength and conditioning, nutrition, mental health/wellness and medical services to all be located in the same footprint. This collaborative design will allow for optimal and efficient services for our student-athletes in all sports except football. Worth noting, the 2013 reconstruction of Husky Stadium provided a successful Health & High Performance model for football that unified all of these student wellness functions in one efficient and contiguous space. The football facility immediately yielded a more holistic and organized system that resulted in an improved student-athlete experience and incredible success in competition. We expect the same results with the H2P project.

Site Selection

In 2014, Intercollegiate Athletics (ICA) funded a predesign study for the development of a Basketball Operations Building. The new building, proposed for the current location of the Pavilion Pool, adjacent to the east of the Hec Edmundson Pavillion complex, will be the home for both men's and women's basketball. In late 2018, the University nominated the Pavilion Pool building (built in 1936) for consideration by the City of Seattle Landmarks

Preservation Board, which determined it was not historically significant. This allows for the demolition of the building.

The current strength and conditioning facility is located next door to the Pavilion Pool. The new H2P will include a renovation of the existing facility (weight room and Legends Center), as well as expanded square footage as part of the construction of the operations center. The H2P will serve student-athletes competing in men's and women's basketball and all Olympic sport student-athletes.

In early 2019, ICA and UW Facilities partnered to conduct a benchmark study providing the basis for the development of a new, approximately 60,000 – 70,000 Gross Square Foot (GSF) building, along with an approximately 14,000 GSF renovation of existing space. The study provided the basis for the building massing, cost and schedule.

Project Schedule

This is an Integrated Design-Build project with a two-part process to select the design-builder and architect. The process to select the two partners will begin in Q2 of 2020 and will last 5 to 6 months. Design will start soon after and run through the end of 2021. Construction will begin in Q4 of 2021 with substantial completion Q4 of 2023.

Maintenance & Operating Costs

ICA will fund Maintenance and Operating costs for the project through operating revenues, as is the case for all other ICA buildings in the Athletics Village. Renewal costs for the periodic replacement of major components or infrastructure systems at or near the end of their useful life will be funded through ICA's capital budget.

ICA Basketball Training / Operations Facility and Health & High Performance Center Financing Plan and Credit Analysis

Scope of Financial Due Diligence

Prior to the administration recommending a debt-funded project for Board approval, the Treasury Office conducts financial due diligence. The process for due diligence is well defined but not exhaustive.

In partnership with Advancement, the Treasury Office worked closely with Intercollegiate Athletics (ICA) to assess the ability of the unit to interim fund the Project with a Bridge loan. The University’s Bridge program addresses the timing gap between project expenditures and the receipt of gift funds in order to accelerate project construction.

Specific due diligence tasks, in partnership with ICA and Advancement, included the following:

- Verification of donor pledges with Advancement
- Evaluation of ICA reserves
- Estimate of Bridge loan size and tentative repayment schedule
- Estimate of interest costs related to the loan

The \$60.5 million ICA Basketball Training / Operations Facility and Health & High Performance Center (the “Project”) will include a new basketball operations building, practice courts for the men’s and women’s basketball teams, and the renovation of the weight room in Graves Annex. The Treasury Office believes ICA has demonstrated the ability to fully fund the Project and adequately service debt payments related to the Bridge loan.

Project Scope and Funding

As shown in the following table, ICA has raised a total of \$51.6 million in gift funding and has committed roughly \$9.0 million in reserves for the Project. It should be noted that ICA plans to continue to fundraise for the remaining \$9.0 million they are contributing from reserves which may impact the size and timing of the expected bridge loan. Interest costs related to the Bridge loan will be paid from ICA revenues and reserves.

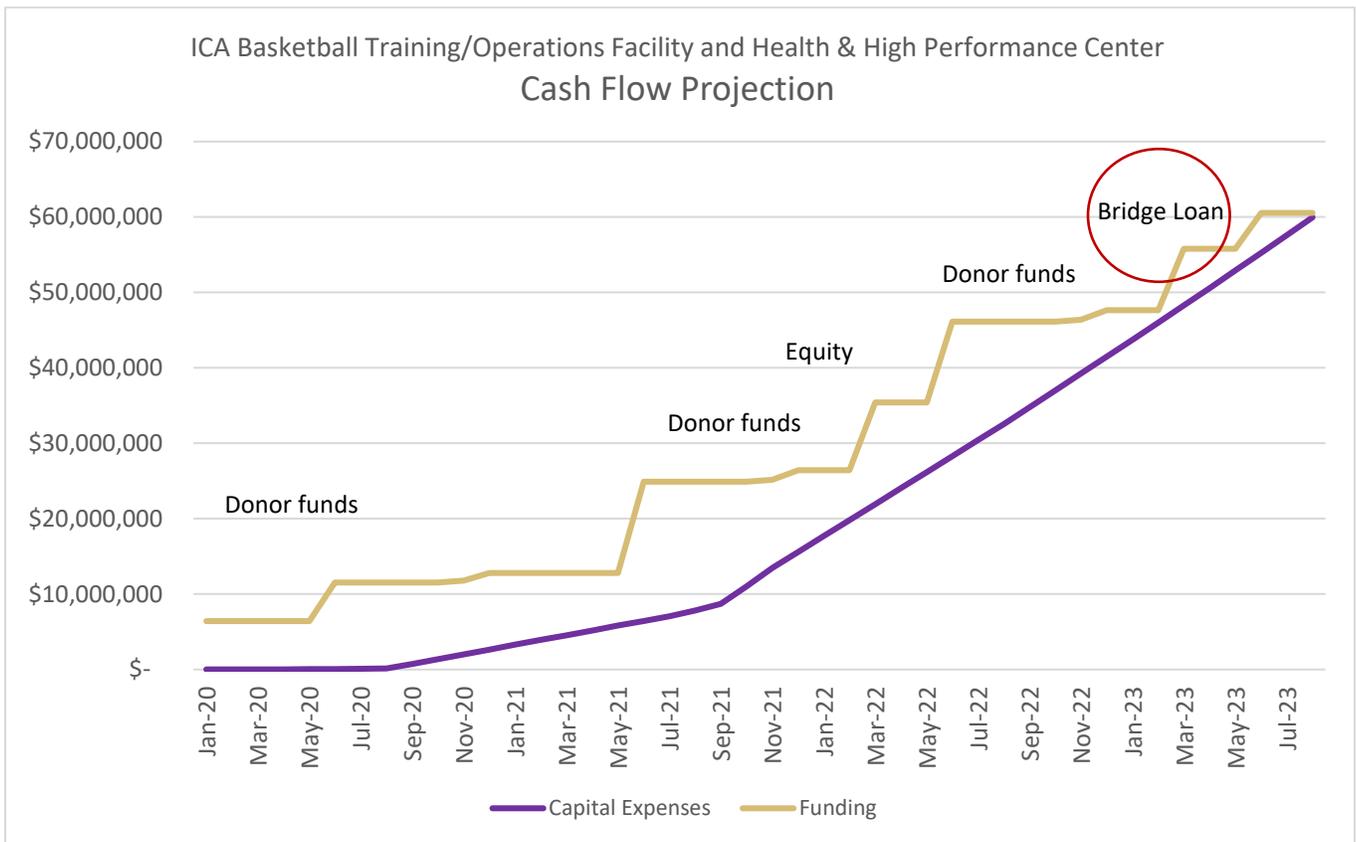
Proposed Budget		Proposed Funding	
Project Costs (1)	\$ 60,541,926	Donor Funds	\$ 51,562,946
		ICA – Cash Reserves (Backstop)	8,978,980
Total Project Cost	\$ 60,541,926	Total Funds	\$ 60,541,926

(1) Includes construction costs, consultant services, equipment and furniture, project management, and other costs. Does not include University Advancement gift fees on pledges paid after February 2020, which are estimated at \$1.25 million.

ICA Basketball Training / Operations Facility and Health & High Performance Center Financing Plan and Credit Analysis

Bridge Financing Strategy

As of December 31st, 2019, ICA had received \$51.6 million in pledges relating to the Project, with \$6.4 million in funds on-hand. ICA expects to collect an additional \$37 million through construction. These funds, plus the \$9.0 million of ICA reserves, are expected to cover Project expenditures through February 2023 (see cash flow projection below).



At that point, Project expenditures are expected to exceed available funds and the Bridge program will be used to fund expenditures relating to uncollected gifts beginning in March 2023. Based on uncollected pledges at the time of Regental approval, the maximum Bridge loan will be set at \$12.5 million (dependent on Bridge policy). However, under current projections the maximum outstanding loan is estimated to be \$8.1 million.

The Bridge program is not an additional funding source for Project costs, and any outstanding Bridge loan balance will be repaid as donor funds are received, but no later than seven years after Regental approval (January 2027). While the loan repayment must be made no later than 2027, the loan balance may not be outstanding longer than five years.

ICA Basketball Training / Operations Facility and Health & High Performance Center Financing Plan and Credit Analysis

ICA will be charged a market-based interest rate for the Bridge loan at the time of the first draw and will have seven years from Board approval to repay what is drawn over the life of this Project. The interest rate will be fixed for the life of the loan. The interest will be paid monthly from ICA operating funds. The current interest rate for Bridge financings is 3.0% (subject to change).

Treasury Due Diligence

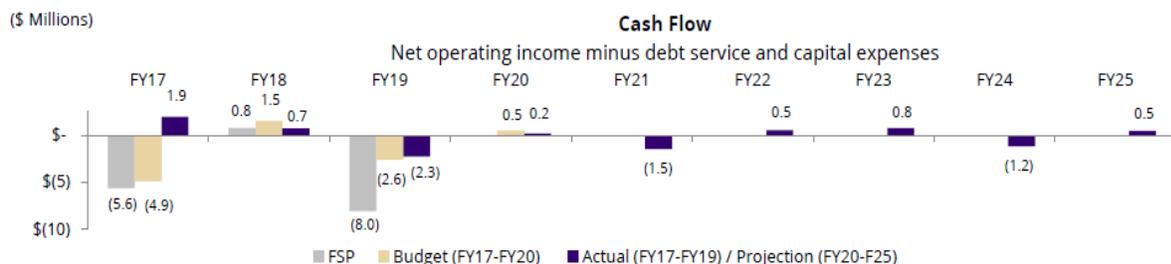
Donor Pledges

Treasury, with the help of Advancement, confirmed that the existing 13 donors are long-term supporters of the University, with a cumulative lifetime giving of \$170 million. Treasury and Advancement do not see any signs of concern with the donors' pledges. Additionally, Treasury validated that the pledges are documented in Advance and have a signed pledge form.

Equity and Reserves

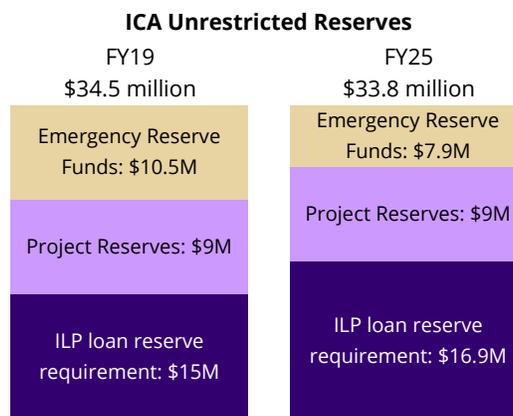
In addition to the \$9.0 million of ICA equity being earmarked for the Project, additional reserves may be required if there is any remaining balance of the Bridge loan at the end of the seven year period. ICA is expected to collect \$1.75 million in gift funds after the required payment date, which means ICA may be required to use up to approximately \$10.75 million in reserves for the Project. Once the donor funds are received, ICA would be able to reimburse themselves for the loan balance payoff.

ICA reserves are healthy and are projected to remain strong through the completion of the Project. ICA is required to hold a minimum of \$15.0 million in unrestricted reserves to meet their existing ILP loan reserve covenants. ICA ended FY19 with \$34.5 million in reserves, well above the minimum reserve requirement. Assuming that there are no additional calls on reserves, ICA should be able to contribute \$9.0 million to the Project, pay off a \$1.75 million loan balance in FY25 and still be sufficiently above ILP reserve covenants. It should be noted that based on the May 2019 Annual Financial Review presentation to the Board and November SABRe report, ICA is projecting close to break-even cash flows through FY25, which highlights expected break-even financial performance:



ICA Basketball Training / Operations Facility and Health & High Performance Center Financing Plan and Credit Analysis

In the unlikely event that pledges are not fully realized, ICA is projected to have an additional \$10.5 million in unrestricted reserves to mitigate unrealized pledges (or roughly 23% of uncollected donor pledges). The graphic below depicts ICA unrestricted reserve balances as of FY19 and FY25. In FY25, when the Bridge loan is required to be paid off, ICA's reserve balances are projected to be \$33.8 million. Additionally, ICA's ILP loan reserve covenants will increase to \$16.9 million due to the internal structuring of their existing debt service. These two factors lead to a slightly smaller remaining balance to mitigated unrealized pledges (\$7.9 million or 17%).



Capital Project Funding Guidelines

Treasury evaluated expected compliance with the following funding guidelines:

- *Minimum 25% of donor funds on-hand at construction:* Based on current gift collection projections, it is expected that ICA will exceed the requirement to have at least 25% of donor funds on-hand prior to construction start. Facilities will verify ICA is in compliance with this guideline before construction begins. ICA is currently projected to have \$24.9 million in donor funds on-hand at the time of construction (or 48% of donor funds).
- *Minimum 10% of pledges on-hand at Board approval:* The program also requires that the unit have 10% of identified pledges on-hand at Board approval. ICA has \$6.4 million on-hand, thus satisfying this requirement.

Conclusion

Treasury identified a few areas of risk:

1. Due to the single-phase Board approval process, and low donor funds on-hand at the time of Board approval, Facilities requires a minimum of 10% of donor funds to be on-hand at the time of Board approval. There is potential increased institutional risk

ICA Basketball Training / Operations Facility and Health & High Performance Center Financing Plan and Credit Analysis

with the Project given the lower donor funds on-hand at Board approval (e.g. only \$6.4 million of the \$51.6 million total donor funds are on-hand “today”). This means the risk related to pledge realization is higher versus approving the Project when more donor funds are on-hand.

2. The commitment/use of unrestricted reserves: Given ICA’s recent exit from a Financial Stability Plan and cyclical nature of revenue collection due to Don James Center renewals and football schedule, using unrestricted reserves limits ICA’s ability to respond to other unanticipated financial events. It should be noted that ICA intends to continue to fundraise to reduce or eliminate the need for use of ICA equity for the Project.
3. Pledge realization changes: If ICA is successful in fundraising for the \$9.0 million being contributed from reserves, the estimated size and timing of the Bridge loan will likely be impacted. It is important for Treasury and Facilities to monitor these efforts and the potential impacts to the Project, ICA and the Bridge Program prior to construction commencing. Treasury will work with ICA, Advancement and Facilities to monitor and evaluate these impacts.

While these risks exist, we believe they are mitigated due to the donor composition, the level of ICA’s unrestricted reserves, and the active monitoring of projects.

On-going Communication Plan

On-going requirements and communication include:

- Enter into a Financing Agreement with the Treasury Office
- Provide the Treasury Office with periodic updates to construction cash flows and pledges received with projected collections of outstanding pledges for as long as the loan is outstanding
- Provide the Treasury Office with periodic updates on unrestricted reserve balances for as long as the loan is outstanding
- Contact Compliance and Risk Services to determine the appropriate types and amounts of insurance coverage, if any
- Monthly reporting to the Board of Regents on Project Funding

ICA Basketball Training/Operations Facility and Health & High Performance Center Site Plan

