

**STANDING COMMITTEES**

Finance and Asset Management Committee

Approve Financing Assets in the Short Term (FAST) Loan in an Amount up to \$19 Million

**RECOMMENDED ACTION**

It is the recommendation of the administration and the Finance and Asset Management Committee that the Board of Regents:

1. Approve the use of a Financing Assets in the Short Term (FAST) loan in an amount up to \$19.0 million to reimburse Housing & Food Services for expenditures related to Oak Hall; and
2. Delegate to the President or her designee(s) the authority to select a lender and enter into the necessary agreements.

**BACKGROUND**

Housing & Food Services (HFS) has and will continue to experience significant revenue loss due to the pandemic. The impact will not be fully understood until, at the earliest, the end of the 2020 Autumn Quarter. As a major borrower within the University's Internal Lending Program (ILP), HFS is required to maintain agreed upon covenants. Given the severity of the situation, HFS will not meet ILP covenants at year-end.

As an initial step in regaining financial viability, HFS and Treasury recommend the use of a FAST loan up to \$19.0 million to reimburse cash expenditures used for Oak Hall which will (a) infuse HFS with cash to help sustain operations and mitigate future COVID-19 impacts, including short-term nominal declines in occupancy, (b) allow HFS to meet ILP covenants by Fiscal Year (FY) 2022 if occupancy returns to near normal levels by January 2021, and (c) maintain rental rates previously approved by the Board. If needed, additional measures would be evaluated as the extent of financial impacts becomes clearer by end of summer. While additional debt on the HFS system is not without concern, reserving cash and maintaining a level of liquidity is a sound strategy at this time.

**COVID-19 IMPACTS****Spring Quarter Impacts and Response**

HFS experienced a significant drop in occupancy in both 9- and 12-month housing, from 98.2 percent at the beginning of Winter Quarter to 15.4 percent for

## STANDING COMMITTEES

### Finance and Asset Management Committee

#### Approve Financing Assets in the Short Term (FAST) Loan in an Amount up to \$19 Million (continued p. 2)

Spring Quarter. Family housing remained stable during this time. In addition, all campus retail dining venues were closed between the end of Winter Quarter and the start of Spring Quarter. Foregone Spring Quarter revenue totaled \$23.3 million for housing and \$10.6 million for dining services. In addition, HFS refunded \$440,000 in dining plan funds for students carrying a large balance at the end of Winter Quarter.

With little notice regarding the drop in occupancy along with the fact that students' property remains in all the residence halls, HFS has not been able to reduce expenses to the degree reflected in mitigation plans developed as part of previous ILP loan due diligence. With that said, to date HFS has reduced budgeted expenses by \$10.7 million for the fourth quarter of FY20 and postponed or cancelled \$3.1 million in capital spending. The department has instituted a hiring freeze and, unfortunately, has already furloughed probationary staff who chose not to accept similar work at the UW Medical Center. Additional furloughs of staff whose work was eliminated due to dining venue closures are also moving forward.

#### **Projected Summer Quarter Impacts and Planning**

Expense reductions for FY21 are underway but complicated by the uncertain future of both Summer and Autumn Quarters. Summer school and conference housing are expected to be significantly less than in prior years. Direct expenses associated with those programs can and will be reduced as it is determined they are not needed. HFS will not be hiring hourly housekeepers, cyclic staff, or student employees for the summer, instead handling all work with existing staff without further reductions. Staff reductions during the Summer Quarter are possible but would need to be short in duration to "ramp up" for Autumn Quarter, under the assumption occupancy would be at least 79 percent (this represents a 2:1 student-to-bathroom ratio).

#### **Autumn Quarter Planning**

HFS is modeling numerous service and financial scenarios for Autumn Quarter, from full occupancy to reduced occupancy levels based on two primary variables – course delivery and public health guidelines pertaining to ongoing risk of COVID-19 infection. Expense reductions fall in step with reduced occupancy but maintain staffing at the Spring 2020 level.

## STANDING COMMITTEES

### Finance and Asset Management Committee

#### Approve Financing Assets in the Short Term (FAST) Loan in an Amount up to \$19 Million (continued p. 3)

To date, applications from returning students for Autumn 2020 are mirroring 2018 and considered strong. Housing applications from new students are very high compared to last year (2019) same date.

Under normal circumstances, projecting occupancy for Autumn Quarter is a very dynamic process. HFS uses historical data for comparison along with several key dates to establish a level of confidence regarding Autumn Quarter occupancy. Autumn 2020 will no doubt be heavily impacted by institutional decisions regarding class offerings, the ability of international students to travel to the United States, and guidance by public health officials regarding housing density. It is expected that applicants will make housing decisions based on these and other restrictions. The extent to which these conditions persist and impact Winter and Spring Quarter occupancy levels is a potentially significant variable.

#### MITIGATIONS

While HFS is taking action and modeling numerous service and financial scenarios for Autumn Quarter, additional support is needed. Support options that have been completed or are underway for regaining financial viability include:

1. In April 2020, the Board of Regents approved an ILP rate reduction from 4.50 percent to 4.25percent, which became effective on May 1, 2020. For large borrowers like HFS, the impact is sizable, and saves the unit approximately \$91,000 per month.
2. HFS is pursuing Federal CARES Support in partnership with the Office of Planning and Budgeting. If HFS receives any money from the Federal CARES program, it will not suffice to establish financial viability for HFS; however, the funds could reduce the size of a potential FAST loan.
3. In recognition that many borrowers will fall short of covenants in the upcoming fiscal year, Treasury has proposed initial increased monitoring and reporting in lieu of board-approved Financial Stability Plans during this time.
4. Treasury is currently working to secure external liquidity through a \$200 million line of credit, which the Board is asked to approve this

STANDING COMMITTEES

Finance and Asset Management Committee

Approve Financing Assets in the Short Term (FAST) Loan in an Amount up to \$19 Million (continued p. 4)

month. If approved, HFS could have access to a portion of this line of credit, if needed.

The recommended action of a FAST loan up to \$19.0 million acts as a bridge to more normal occupancy levels for the 2021 academic year. Again, if there is a sustained decline in occupancy, additional measures will need to be taken. Additional options that may be explored if further support is required include:

5. If deemed an appropriate strategic action, HFS and UW Real Estate could pursue the land lease of an existing asset that would result in a reduction of overall debt, significant cash infusion, and the ability to support certain institutional priorities.
6. Additional ILP support which may include a restructure of internal debt service payments.

**Financial Outcomes of Occupancy Scenarios and FAST Loan Impact**  
**Estimates as of May 25, 2020**

FY21	Courses online; occupancy based on Spring 2020	Occupancy based on 1 student/bath	Occupancy based on 2 students/bath	Occupancy based on 3-4 students/bath	Full occupancy
Occupancy	14%	41%	79%	88%	100%
Revenue	\$111,457,000	\$122,474,000	\$139,216,000	\$143,579,000	\$150,778,000
Expenses	\$68,877,000	\$72,731,000	\$77,805,000	\$78,120,000	\$83,635,000
Reserves at FYE – w/o FAST Funding	(\$16,359,000)	(\$9,185,000)	\$2,482,000	\$6,529,000	\$8,215,000
DSC at FYE – w/o FAST Funding	0.82	0.96	1.19	1.27	1.30
Reserves at FYE – with FAST Funding	\$764,000	\$7,938,000	\$19,605,000	\$23,653,000	\$25,338,000
DSC at FYE – with FAST Funding	0.79	0.93	1.15	1.22	1.25

- All scenarios include Summer Quarter projected at 10 percent of historical revenues and associated expense reductions.
- All scenarios assume that Winter and Spring Quarters return to previously budgeted occupancy. While a reasonable assumption, should this not

## STANDING COMMITTEES

### Finance and Asset Management Committee

#### Approve Financing Assets in the Short Term (FAST) Loan in an Amount up to \$19 Million (continued p. 5)

occur, additional support may be required if other strategies such as expense reductions are not sufficient.

- FY20 – FY21 debt service associated with the FAST loan only is estimated at \$1.8 million beginning in September 2020.
- The FAST loan assumes a \$19.0 million draw in June 2020, 10-year amortization, and an estimated taxable interest rate of 2.25 percent. The interest rate is market-based and subject to change.
- Occupancy percentages are for 9- and 12-month housing only (family housing and affiliated communities remain constant) but revenue and expense numbers include all HFS entities.

#### REVIEW AND APPROVALS

This item has been reviewed and approved by the Vice President for Student Life, the Vice President of Finance and the Associate Vice President, University Treasurer.

#### *Attachment*

Updated Housing & Food Services Proforma Reflecting Impact of 79 Percent Occupancy and \$19 Million FAST Loan

**Housing and Dining - FAST Loan**  
**Scenario - 10% Summer; 2 Persons per Bath Autumn Online; Normal Winter & Spring**  
**as of 3/31/20**

(dollars in thousands)

	Actual			Projected											CAGR (1) (2017-2019)	CAGR (1) (2020-2030)
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030		
<b>Beginning Balances</b>	\$ 62,713	\$ 65,648	\$ 83,574	\$ 82,833	\$ 28,011	\$ 19,605	\$ 19,069	\$ 32,762	\$ 48,395	\$ 66,277	\$ 85,269	\$ 106,813	\$ 129,352	\$ 159,999		
<b>REVENUE</b>																
Operating Revenue	\$ 129,925	\$ 139,552	\$ 157,274	\$ 118,374	\$ 139,216	\$ 151,040	\$ 155,172	\$ 158,492	\$ 162,891	\$ 167,421	\$ 172,072	\$ 176,863	\$ 188,062	\$ 193,199	10.0%	5.0%
Phase 4b	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,499	\$ 2,574	\$ 2,652	\$ 2,731	\$ 2,813	\$ 2,897	\$ 2,984	\$ 3,074	\$ 3,166	-	-
<b>Total Revenue</b>	\$ 129,925	\$ 139,552	\$ 157,274	\$ 118,374	\$ 139,216	\$ 153,540	\$ 157,746	\$ 161,144	\$ 165,622	\$ 170,234	\$ 174,970	\$ 179,848	\$ 191,136	\$ 196,365	10.0%	5.2%
<b>EXPENSES</b>																
Operating Expenses	\$ 76,387	\$ 80,381	\$ 85,761	\$ 77,943	\$ 77,805	\$ 82,436	\$ 84,858	\$ 87,403	\$ 90,026	\$ 92,726	\$ 95,508	\$ 98,373	\$ 101,324	\$ 104,266	6.0%	3.0%
Phase 4b	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380	\$ 391	\$ 403	\$ 415	\$ 427	\$ 440	\$ 453	\$ 467	\$ 478	-	-
<b>Total Expenses</b>	\$ 76,387	\$ 80,381	\$ 85,761	\$ 77,943	\$ 77,805	\$ 82,816	\$ 85,249	\$ 87,806	\$ 90,440	\$ 93,153	\$ 95,948	\$ 98,826	\$ 101,791	\$ 104,743	6.0%	3.0%
<b>NET OPERATING REVENUE</b>	\$ 53,538	\$ 59,171	\$ 71,513	\$ 40,431	\$ 61,411	\$ 70,724	\$ 72,497	\$ 73,338	\$ 75,182	\$ 77,081	\$ 79,022	\$ 81,021	\$ 89,344	\$ 91,622	15.6%	8.5%
Existing Debt Service	\$ 35,434	\$ 38,876	\$ 50,471	\$ 52,728	\$ 53,571	\$ 53,823	\$ 50,465	\$ 50,466	\$ 50,467	\$ 50,466	\$ 50,468	\$ 50,464	\$ 50,071	\$ 49,640	19.3%	-0.6%
<b>TOTAL DEBT SERVICE</b>	\$ 35,434	\$ 38,876	\$ 50,471	\$ 52,728	\$ 53,571	\$ 53,823	\$ 50,465	\$ 50,466	\$ 50,467	\$ 50,466	\$ 50,468	\$ 50,464	\$ 50,071	\$ 49,640		
Subtotal: Net Operating Cash Flow	\$ 18,103	\$ 20,295	\$ 21,042	\$ (12,297)	\$ 7,840	\$ 16,900	\$ 22,033	\$ 22,872	\$ 24,715	\$ 26,615	\$ 28,554	\$ 30,557	\$ 39,273	\$ 41,982		
Non-Operating Revenue	\$ 3,374	\$ 7,132	\$ 1,348	\$ 174	\$ -	\$ 694	\$ 753	\$ 768	\$ 860	\$ 960	\$ 1,070	\$ 1,190	\$ 1,054	\$ 1,194		
FAST Loan Funding	\$ -	\$ -	\$ -	\$ 19,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Capital Expenditures	\$ 18,542	\$ 9,500	\$ 23,132	\$ 61,699	\$ 16,246	\$ 18,131	\$ 9,092	\$ 8,007	\$ 7,692	\$ 8,583	\$ 8,080	\$ 9,208	\$ 9,681	\$ 9,896		
Cash Flow	\$ 2,935	\$ 17,926	\$ (741)	\$ (54,822)	\$ (8,406)	\$ (537)	\$ 13,693	\$ 15,633	\$ 17,882	\$ 18,992	\$ 21,544	\$ 22,539	\$ 30,647	\$ 33,280		
<b>Ending Balance</b>	\$ 65,648	\$ 83,574	\$ 82,833	\$ 28,011	\$ 19,605	\$ 19,069	\$ 32,762	\$ 48,395	\$ 66,277	\$ 85,269	\$ 106,813	\$ 129,352	\$ 159,999	\$ 193,279		
Net Revenue % change	7.0%	7.4%	12.7%	-24.7%	17.6%	10.3%	2.7%	2.2%	2.8%	2.8%	2.8%	2.8%	6.3%	2.7%		
Operating Expenses % change	5.2%	5.2%	6.7%	-9.1%	-0.2%	6.4%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.9%		
Net Operating Cash Flow % change	14.6%	12.1%	3.7%	-158.4%	-163.8%	115.6%	30.4%	3.8%	8.1%	7.7%	7.3%	7.0%	28.5%	6.9%		
Occupancy as a % of Operating Capacity (9/12/FHA)	97/91/93	97/91/93	97/91/93	71/69/93	90/90/93	97/91/93	97/91/93	97/91/93	97/91/93	97/91/93	97/91/93	97/91/93	97/91/93	97/91/93		
Bed Count	8,423	8,658	9,575	9,575	9,575	9,575	9,575	9,576	9,577	9,578	9,578	9,578	9,579	9,579		
<b>Coverage (Net Operating Revenue / Debt Service)</b>	1.51	1.52	1.42	0.77	1.15	1.31	1.44	1.45	1.49	1.53	1.57	1.61	1.78	1.85		
Existing ILP Reserve Requirement (2)	\$ 17,777	\$ 18,576	\$ 19,652	\$ 18,089	\$ 18,061	\$ 19,063	\$ 19,550	\$ 20,061	\$ 20,588	\$ 21,131	\$ 21,690	\$ 22,265	\$ 22,858	\$ 23,449		
<b>Excess Above Required Balance</b>	\$ 47,870	\$ 64,998	\$ 63,181	\$ 9,923	\$ 1,544	\$ 6	\$ 13,212	\$ 28,334	\$ 45,689	\$ 64,139	\$ 85,124	\$ 107,087	\$ 137,141	\$ 169,830		

(1) Compound annual growth rate

(2) Minimum reserves set at 60% of four months operating expenses plus \$2.5 million