BOARD OF REGENTS MEETING

Long-Term Capital Plan Update

INFORMATION

This item is being presented for information and discussion.

BACKGROUND

Each year, the Board reviews and approves the University’s annual operating budget and its Five-Year Capital Budget. These documents direct the efforts of a broad team within the University to deliver individual initiatives and projects. In recent years, they have been presented for information in May and for action in June, compressing review of the high-level strategy that drives the University’s capital planning process. The annual capital plan and operating budget are informed by explicit consideration of the University’s capital strategy over the next fifteen years, within parameters of mission and resources.

Several years ago, at the Board’s request, the administration comprehensively examined capital spending and recommended a series of strategies captured in the Long-Term Capital Plan (LTCP) that guide the more discrete level of planning that occurs at the five-year capital plan level.

Throughout the past year, and in light of the COVID pandemic, these strategies have been reviewed to ensure they are still valid. This analysis concluded that the administration’s primary LTCP strategies of (1) making capital investments in existing buildings equal to the deterioration rate, (2) increasing UW Medicine’s access to debt, (3) limiting physical growth to 0.5 percent and (4) continuing to leverage partnerships will remain constant, with the few subtle changes noted below:

- Debt capacity was updated to reflect Fiscal Year (FY) 2021 performance and new projections;

- Strategic demand was reduced to reflect the longer term historical funding average, understanding that this approach will require thoughtful decision-making, involving disciplined prioritization of potential strategic initiatives; and,

- Philanthropic support was updated based on the alignment of Advancement activities in support of institutional priorities such as investment in existing facilities.
Long-Term Capital Plan Update (continued p. 2)

These updated recommendations are the product of the collaboration of UW Facilities, UW Medicine, Treasury, the Office of Planning & Budgeting, Advancement and senior leaders across the institution. They look forward to robust discussion.

Attachment
15-Year Long-Term Capital Plan
15-Year Long-Term Capital Plan

UW Board of Regents
13 May 2021
Long-Term Capital Plan update

The UW’s Long Term Capital Plan is the framework for...

• Five-Year Capital Budget
• UW Medicine Long Range Capital Plan

It also influences...

• UW Operating Budget

The strategy defined in the Long Term Capital Plan last year remains sound...

> Built upon the following foundational guidelines:

• Allocate capital resources to investment in existing buildings to (at least) match the facilities deterioration rate
• Reduce the total square footage growth rate to 0.5% per year
• Increase UW Medicine’s access to debt
• Leverage partnerships
Changes since March 2020

Minor changes to overall demand and resource numbers:

- Debt capacity updated to reflect FY21 performance and new projections
- Philanthropic support updated based on the alignment of Advancement activities in support of institutional priorities – i.e. investment in existing facilities
- Strategic demand reduced to reflect the longer term historical average

Our pandemic experience informs our planning/strategy…

- Validation of SF growth reduction strategy
  - Many units have continued to function well with increased telework and have discovered a full time campus “presence” isn’t always required.
  - We expect this dynamic will cycle, as units return to campus and we remember some of the inefficiencies associated with stakeholders not being physically present.
- Focus shifting to accommodating program/research “growth” within existing building footprint vice SF growth
### Bridging the Gap: Demand > Traditional Sources

**Demand = $8.4B**  
(~$560M/yr)  

**Traditional Sources = $6.9B**  
(~$460M/yr)  

- **Growth** $1.5B  
  (~$100M/yr)  
- **Clinical** $1.5B  
  (~$100M/yr)  
- **Strategic** $1.3B  
- **Renewal** $4.1B  
- **Debt** $1.9B  
- **P3s** $1.5B  
- **State** $1.2B  
- **Gift** $1.2B  
- **Unit/Central Equity** $0.8B  
- **Clinical Equity** $0.8B  

**Public/Private Partnerships (P3s) = $1.5B**  
(~$100M/yr)

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**Growth**: Investments that add new square footage driven by growth in student enrollment and/or research.  
**Clinical**: Investments that support the mission and strategic objectives of the Clinical Enterprise.  
**Strategic**: Investments that have the potential to take the University in new directions through efficiencies, technologies, partnerships, etc.  
**Renewal**: Renovations or replacement of the existing physical infrastructure.
Allocation strategy FY22-FY36

<table>
<thead>
<tr>
<th>Demand Area</th>
<th>Debt</th>
<th>Gift</th>
<th>State</th>
<th>Unit/Central Equity</th>
<th>Clinical Equity</th>
<th>Total UW Funding</th>
<th>P3s</th>
<th>Total Funding</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>$0.2</td>
<td>$0.5</td>
<td>$0.1</td>
<td>-</td>
<td>-</td>
<td>$0.8</td>
<td>$0.7</td>
<td>$1.5</td>
<td>18%</td>
</tr>
<tr>
<td>Renewal</td>
<td>$0.7</td>
<td>$0.6</td>
<td>$1.9</td>
<td>$0.9</td>
<td>-</td>
<td>$4.1</td>
<td>-</td>
<td>$4.1</td>
<td>49%</td>
</tr>
<tr>
<td>Strategic</td>
<td>$0.3</td>
<td>$0.1</td>
<td>-</td>
<td>$0.1</td>
<td>-</td>
<td>$0.5</td>
<td>$0.8</td>
<td>$1.3</td>
<td>15%</td>
</tr>
<tr>
<td>Clinical</td>
<td>$0.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$0.8</td>
<td>$1.5</td>
<td>-</td>
<td>$1.5</td>
<td>18%</td>
</tr>
<tr>
<td>Totals</td>
<td>$1.9</td>
<td>$1.2</td>
<td>$2.0</td>
<td>$1.0</td>
<td>$0.8</td>
<td>$6.9</td>
<td>$1.5</td>
<td>$8.4</td>
<td>100%</td>
</tr>
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</table>
Long-term capital outlay by sources

Total: $4.2 billion  
Avg per year: $464 million

Total: $2.3 billion  
Avg per year: $460 million

Total: $4.8 billion  
Avg per year: $477 million

Long-term strategy assumes:

- modest increase in debt
- significant reduction in academic equity
- stable state funding
- continuing success in fundraising
Long-term capital outlay by demands

Total: $4.2 billion
Avg per year: $464 million

Total: $2.3 billion
Avg per year: $460 million

Total: $4.8 billion
Avg per year: $477 million

Long-term strategy assumes:

- increase in clinical investments
- increase in renewal investment (renovate/replace existing facilities)
- reduction in capital spending on growth projects (new buildings)
Institutional Risk: Deferred Maintenance

Seattle Athletics, E&G and Housing
Deferred Maintenance Backlog Projection
(Sightlines Data)

Excludes UW Medicine, UW Bothell & UW Tacoma
Renewal Strategy:
address deferred maintenance backlog

1. Conduct campus-wide Facility Condition Assessment
2. Fully fund preventative maintenance
3. Increase capital renewal investment
   • Allocate capital resources to investment in existing buildings to (at least) match the facilities deterioration rate (~1.44% of CRV)
4. Fully fund annual stewardship (M&O+R) for all new buildings
5. Consolidate and optimize utilization of office & support space
6. Reinvest energy savings
7. Other strategies (i.e. P3s)
Growth Strategy:
reducing campus square footage growth

Excludes: UW Medicine, Parking and Field Sites
Growth Strategy: reducing campus square footage growth

Reimagining the future workspace post COVID

- UWF relocation as hybrid environment prototype in UW Tower
- Office relocations into UDSB as additional prototypes
- Engaging industry experts to study prototypes
- Sharing the knowledge (with GSA and others)
- Reduce per person space by ~20% without limiting future unit growth

Reimagining future learning spaces post COVID

- Hybrid teaching expanding
- Work with Provost office on changing needs
Clinical Strategy: Leveraging UW debt capacity

• Covid impacts on liquidity as well as limited access to capital historically has resulted in years of constrained capital investment

• UW Medicine’s Long Range Financial Plan and FY22 budget assume increased levels of access to capital consistent with amounts reflected in the University’s Long Term Capital Plan

• Increased capital investment, including associated return on investment, over the next 5 years are focused on:
  • Strategic refresh initiatives
  • UWMC campus configuration designed to maximize use of both campuses
  • Deferred maintenance
P3 Strategy: Leveraging partnerships

Potential Value of P3s – leveraging industry capabilities for UW

- Industry expertise – partners in research, teaching, healthcare, public service
- Shifts initial capital cost and transfers/shares potential risk to the private sector
- Supplements traditional debt instruments
- Timing/Speed in a competitive HigherEd environment
  - Flexibility afforded by P3s might allow us to continue to progress campus improvements despite short-term uncertainties over revenues and demand
  - High incentives for the private entity to complete projects on budget and on time
- Increases value of UW land holdings, which translates to increased value toward UW’s institutional mission:
  - academic excellence, cutting edge research, top-tier healthcare, public service impact
# P3 Projects – current & planned

## Growth Projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bothell Housing</td>
<td>Active</td>
</tr>
<tr>
<td>W27</td>
<td>Active</td>
</tr>
<tr>
<td>Early Childhood Learning Center</td>
<td>Active</td>
</tr>
<tr>
<td>Student Housing</td>
<td>Future</td>
</tr>
</tbody>
</table>

## Strategic Projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Univ. District Station Building</td>
<td>Active</td>
</tr>
<tr>
<td>UW Medicine Spokane</td>
<td>Active</td>
</tr>
<tr>
<td>Affordable Housing – Filer Property</td>
<td>Active</td>
</tr>
<tr>
<td>Academic Conference Center</td>
<td>Future</td>
</tr>
<tr>
<td>Welcome Center</td>
<td>Future</td>
</tr>
<tr>
<td>District Energy</td>
<td>Future</td>
</tr>
<tr>
<td>West Campus (multiple projects)</td>
<td>Future</td>
</tr>
</tbody>
</table>
Financial / operational risks

Heavy reliance on debt for deferred maintenance
  • 35% of total debt
  • Repayment sources have yet to be identified

Heavy reliance on donors for renovations projects
  • 55% of total capital gifts
  • Change from past donor strategy

Debt funding critical to fund strategic Clinical investments
  • Requires generation of positive UWM margins sufficient to repay debt

Assumes level of support from State does not decrease

Additional investment needed to reduce deferred maintenance backlog

Partnerships should be weighed through thoughtful analysis
Next steps

- Incorporate deferred maintenance information from campus-wide facility condition assessment by ISES
- Continue policy that annual M&O costs for any additional SF growth must be fully funded before project development
- Increase spending on planned/preventative maintenance (proactive) to reduce the amount needed for corrective maintenance (reactive)
- Continue to evolve plans to consolidate and optimize office & support space utilization
- Long-term strategy for district energy and utility infrastructure renewal to be developed and incorporated into the plan
  - Pursue potential for “Green Revolving Fund” model to enable energy savings
- Deferred maintenance model fully re-evaluated next year
- Long term capital strategy will be assessed annually
Discussion