

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Union Drive Neighborhood Update
Date: October 9, 2000

Recommended Action:

Receive the oral report on meetings with bond rating agencies regarding the proposed Union Drive projects and the required bonded indebtedness.

Executive Summary:

At its July 2000 meeting, the Board received (1) the Department of Residence Master Plan Progress Report: July 2000, and (2) the program and schematic design concept reports for the Union Drive Neighborhood projects. The Board also authorized proceeding with further design of the Union Drive utilities infrastructure, Union Drive Suite Building 1, and Union Drive Community Center with the design development drawings for the facilities to be presented for Board approval.

As had been requested by the Board, the University provided, at the September 2000 meeting, (1) a brief report on the consolidation of University food service operations, and (2) the detailed assumptions used for developing proforma financial statements for the Union Drive Neighborhood including room rates for the various types of accommodations (traditional, suite, apartment), proposed annual residence system rate increases, and the financial impact on the residence system of the planned demolition of any residence facilities.

The Board also requested that the University provide a report on the meetings with bond rating agencies regarding the proposed Union Drive projects and the required bonded indebtedness. The visits were scheduled to occur on October 4th (Standard and Poor's) and October 11th (Moody's Investors Service) in Ames. Fall 2000 enrollment, residence occupancy data, and a draft of the June 30, 2000 residence system financial report were available for these meetings. An oral report on the visits will be provided at the October Board meeting.

Background and Analysis:

In July 1998, the Board approved the conceptual framework of Iowa State University's Residence System Master Plan with the understanding that specific projects or phases would be brought forward for Board approval in accordance with the Board's capital planning procedures. At the July 2000 Board meeting, the University presented a progress report on the various components of the Plan. The update provided a synopsis of projects completed or currently underway, adjustments to the Master Plan, and descriptions of future projects, including the Union Drive Neighborhood. A further update was provided at the September meeting.

Union Drive Neighborhood Projects

In July 1999, the Board granted the University permission to proceed with planning for the Union Drive Neighborhood development on the west campus. This project will focus on the needs of new undergraduate students who are making a transition to the University. The program and the schematic design concept were presented to the Board in July 2000. The Board authorized proceeding with further development of the design of the Neighborhood, specifically Union Drive Suite Building 1, which will house 320 students in two double bedroom suite units with a shared bath; the Union Drive Community Center Building, which will provide improved and expanded dining options; and associated infrastructure.

Work on the design is continuing. The University will return to the Board for approval of the design development drawings for the Union Drive Suite Building 1 and the Union Drive Community Center Building, as has been requested by the Board. Vice President Madden indicated at the September 2000 meeting that the drawings were scheduled to be presented at the December 2000 meeting.

Proposed Food Service Consolidation and Union Drive Projects

On June 30, 2000, the University announced that it would have, within the next year, a single, self-operated campus dining operation, with multiple locations. According to the University's news release, the operation will involve a merger of the residence department's dining center, catering and convenience store operations; the Memorial Union's catering service and food court (contracts with franchises will be honored); catering at Scheman (which the Memorial Union currently does); and campus vending services and cafes. The Memorial Union is a separate, non-profit corporation. The University's decision to consolidate the

food service operations resulted from a two-year on-campus review of food service operations.

The Iowa Code defines Dormitory System projects as "buildings for use as student residence halls and dormitories, including dining and other incidental facilities therefor." (§262.55) The bond covenants include dining and other incidental facilities as a component of the "System." Net rents, profits and income of the System are the source of repayment for Dormitory bonds.

At the September 2000 meeting, the University reported that it is currently in the process of working out the details of how to manage effectively its food operations to meet operating objectives of the Residence System and the Memorial Union, and the legal and financial obligations of the bond covenants. The University intends to develop the necessary methods for allocating revenues and expenses between entities during FY 2001. The University has pledged to continue to work with the Board Office, and the Board's bond counsel and financial advisor to ensure continued adherence to all provisions of the Residence System bond covenants.

Union Drive Project Costs and Financing

It is anticipated that completion of the Union Drive Neighborhood, including the Community Center, three Suite Buildings and associated utilities would require more than \$70 million in new bonding between now and March 2004, with the amount needed for the Community Center, Suite Building 1, and associated infrastructure estimated at more than \$36 million. Since 1998, bonds totaling more than \$73 million have been issued for the Maple Hall Renovation and construction of the Hawthorn Court Apartments.

The outstanding principal on Residence System bonds, including the principal from the 1964-67 issues, is approximately \$81.8 million. If the entire Union Drive Neighborhood were to be financed through bonds, Residence System total indebtedness would equal \$142.6 million (new debt less principal payments from 2001-2004).

Bond covenants require that certain financial tests (parity provisions) be met before new bonds can be issued. At the September 2000 Board meeting, the University provided a report on the assumptions, including the room rates and the residence system rate increases, used to develop the proforma financial statements.

The financial proformas, which show that the Residence System can issue debt for the Union Drive projects and meet the requirements of the bond covenants, are based on average annual room rate increases of 5% per year through FY 2004 and 4% per year from FY 2005 to FY 2010 for all categories of rooms except for Hawthorn Court for which an annual increase of 3.51% is projected. For a traditional double occupancy dormitory room, the rate would increase from \$2,454 in FY 2001 to \$3,595 in FY 2010, a cumulative increase of \$1,141 or 46.5%.

The July 1998 docket memorandum on the University's Residence System Master Plan noted that the University had and would continue to work with the Board Office and the Board's financial advisor and bond counsel to ensure that financing plans would retain existing bond ratings. Financing of the proposed Union Drive Neighborhood would increase the amount of new bonds sold above the amount previously discussed with Moody's and Standard & Poor's rating agencies.

The rating agencies continually review the amount of institutional debt in comparison to resources. Moody's has previously noted that the University has a large amount of debt outstanding (\$197.3 million as of July 1, 2000) compared to similarly-rated institutions. The debt of each Regent university is reviewed independently; the debt levels of one institution and its bond rating do not impact the ratings of the other institutions.

It is possible that a significant increase in debt could adversely affect the institution's bond rating. Visits with the rating agencies were held between the September and October Board meetings and an oral report will be provided at the October meeting.


Joan Racki

Approved: 
Frank J. Stork