

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Union Drive Neighborhood Update  
**Date:** September 5, 2000

**Recommended Actions:**

1. Receive the University's report on the consolidation of food service operations, detailed assumptions used for developing proforma financial statements for the Union Drive Neighborhood, and planned visits with bond rating agencies.
2. Request that the University provide:
  - a) A report on meetings with bond rating agencies regarding the proposed projects and the required bonded indebtedness;
  - b) A recommendation regarding proceeding with the Union Drive Neighborhood projects, subsequent to the rating agency visits and prior to adoption by the Board of the bond issuance schedule for calendar year 2001; and
  - c) Periodic reports on the consolidation of food service operations, with the understanding that the final plan be submitted to the Board for approval.

**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.

The Board requested that, at its September 2000 meeting, the University:

1. Report on the consolidation of University food service operations including: a) the impact that this consolidation may have on the size,

- program elements, and services to be provided by the proposed Community Center Building, and b) the means for allocating revenues and costs of the new food service operation to the Residence System;
2. Provide 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; and
  3. Report on discussions with the bond rating agencies regarding the proposed projects and the required bonded indebtedness.

The University reports the food service consultants who have been working on the food service consolidation study have been involved in the planning of the Residence System Community Centers. Thus, the effects of the consolidation on the components included and their square footage have been factored into the program and schematic design for the Union Drive Community Center.

In its docket exhibit, the University notes 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 bond covenants legal and financial obligations. The University intends to develop the necessary methods for allocating revenues and expenses between entities during FY 2001. The University pledges to continue to work with the Board Office, the Board's bond counsel and financial advisor to ensure continued adherence to all provisions of the Residence System bond covenants.

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 University's plans and the financial proforma show the demolition of 2,358 beds in Helser, Storms, Knapp, Westgate Halls and the 1927 wing of Friley Hall. Hawthorn Court (Phases 1 and 2) and the three proposed Union Drive Suite buildings will add 2,952 beds to the system for single students. There would thus be a net total increase of 540 single student beds.

The University's projections show a peak of 9,353 single student beds in FY 2003. Based upon the undergraduate enrollment projections presented to the Board in October 1999, this number of beds would house approximately 41.8% of the undergraduate enrollment. Based upon enrollment projections and the planned demolitions, the percentage housed would then decline slightly to approximately 39.1% in FY 2010.

Bond rating agency visits have been scheduled for October 4<sup>th</sup> and 11<sup>th</sup> in Ames. Fall 2000 enrollment, residence occupancy data, and the June 30, 2000 residence system financial report will all be available for these meetings. A report on the visits will be provided at the October Board meeting.

Work on the design of the Union Drive Suite 1, Union Drive Community Center, and associated infrastructure is continuing. As requested at the July meeting, the University will return to the Board for approval of the design development drawings for these components of the Union Drive Neighborhood. The University also reports that it is continuing to review the overall housing master plan to be sure that the Union Drive Neighborhood project can be completed and operated on a fiscally sound basis.

University representatives will attend the Board meeting to answer questions and provide updated information that may be available in early September after the fall semester has begun. The Board's bond counsel and financial advisor will also be present to answer questions.

**Background:**

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.

### 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.

### 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.

With the consolidation of the University's food service, it is important that the Community Center be sized appropriately. The Board requested that the University provide a report on the spaces programmed for the facility, with consideration of the food service consolidation, at its September meeting.

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 its July 2000 meeting, the Board also requested that the University provide in September a report on the means for allocating revenues and costs of the new food service operation to the Residence System. The Board's bond counsel and financial advisor believe that the method for allocating revenues and costs of the new food service operation to the Residence (Dormitory) System needs to be completed before proceeding with any new bond issues for the System.

### 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. The Board requested that further information on the University assumptions regarding the room rates and the residence system rate increases used to develop the proforma financial statements be presented to ensure that the parity provisions will be met.

The July 1998 docket memorandum 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. It was envisioned that visits with the rating agencies to review the revised master plan and the debt needed to implement the plan would be held prior to the September Board meeting. These visits are now scheduled for early October.

**Analysis:**

The University reports that it has continued to address the issues raised at the July Board meeting, and has been working with Board Office staff, and the Board's bond counsel and financial advisor. The University is continuing these efforts as well as further planning on the Union Drive Neighborhood.

**Food Service Consolidation**

The University utilized a campus-wide advisory committee and two external, nationally recognized food service consultants, Ricca Planning Studio and the Cornyn-Fasano Group, for the study. The consultants and advisory committee recommended consolidation of the core campus dining operations into a single provider. This consolidation would provide more efficient use of resources and greater portability of resident meal plans. The consultants' report also concluded that the University should not move to a contract operator since this action could increase operating costs by 8%. With a contract operator, there would also be a number of staffing and contractual labor relations issues that would need to be addressed. The consultants also indicated that a consolidated food service operation should result in increased food service volumes making this a "win-win" situation.

The University is currently in the process of working out the details of how to merge its food operations both to meet its operating objectives and the legal and financial obligations under bond and debt instruments of the Residence System and Memorial Union. The University intends to develop these specifics during FY 2001. A Campus Dining Operating Unit will be created as a University enterprise, entering into appropriate service agreements with the various existing food operations including the Memorial Union, Residence System, and Iowa State Center. The University is continuing to utilize the expertise of the external food service consultants, external audit firms, and the Board's bond counsel and financial advisors to meet the necessary legal and financial obligations. It is important to ensure that revenues due to the Residence System are not unintentionally diverted. In its docket submittal, the University noted that the final plan would be submitted to the Board for approval.

The consultants with whom the University has been working have been involved in the development of the Union Drive Community Center and the Memorial Union Food Court projects. The University reports that planning recognizes the pending consolidation and is intended to minimize duplication of facilities and services. For example, there would be a single bakery, catering facilities, improved food stores and delivery equipment. Duplication would be eliminated where appropriate.

Union Drive Neighborhood Financial Proforma

The University has provided the following information regarding the rate projections used to develop the financial proforma, which are needed to ensure that the financial requirements of the bond covenants can be met.

Room Rates and Assumed Rate Increases

<u>Room Type</u>	FY 2001 Academic Year <u>Rate</u>	Assumed Rate <u>Increase</u>	FY 2010 Rate with Assumed Rate <u>Increases</u>
Traditional Double – Occupancy Room	\$2,454	5% / year through FY 2004; 4% / year to FY 2010	\$3,595
Maple Hall Double – Occupancy Room	\$2,778	5% / year through FY 04; 4% / year to FY 2010	\$4,069
Maple Hall Suite (Same rate structure for Union Drive Suite)	\$2,910	5% / year through FY 04; 4% / year to FY 2010	\$4,262
Hawthorn Apartments – Double Room	\$3,060	3.51% / year through FY 2010	\$4,173
Hawthorn Apartments – Single Room	\$3,330	3.51% / year through FY 2010	\$4,541
*Add-ons for double room used as a single, single room, and air conditioning would increase at the same rates (5%, 4%) as the dormitory rooms and suites.			

Union Drive Suites would have capital costs higher than other residence facilities but the rates to be charged will not be sufficient to recover fully the operating and debt service costs of these units. This has to be offset by revenues from the balance of the Residence System.

The proformas prepared by the University, which were contained in the Department of Residence Master Plan Progress Report: July 2000, include in their calculations the following demolitions:

**Projected Demolitions**  
(based upon construction of 3 Union Drive Suite buildings and Community Center)

<u>Facility</u>	<u># of Beds</u>	<u>Projected Fiscal Year of Demolition</u>	<u>Occupancy Assumptions used in Financial Proformas</u>
Helser – North	355	2001	All students no longer housed in system
Storms	570	2002	Reassign 341 students to other halls; remaining students no longer housed in system
Knapp	570	2004	Reassign 341 students to other halls; remaining students no longer housed in system
Westgate	80	2003	Reassign 48 students; remaining students no longer housed in system
Friley – 1927	144	2004	All students no longer housed in system
Helser – South	<u>639</u>	2006	All students no longer housed in system
<b>Total</b>	<b>2,358</b>		

Hawthorn Court, Phases 1 and 2 and three Union Drive Suite buildings would add 2,952 beds to the residence system. With the demolition of buildings which would take 2,358 beds from the system, there would be a net increase of 594 beds for single students. Based upon the University's enrollment projections presented to the Board in October 1999, this would not increase the percentage of undergraduate students who would be housed in the residence system.

The housing mix would also change as a result of the addition of the Hawthorn Court and Union Drive Suite facilities. The University reports that the number of air conditioned units would increase by 100% to 5,810 and the units designed for single occupancy would increase by 180%.

The financials have been categorized by the Department of Residence System as conservative in their occupancy assumptions. Barry Fick of Springsted, the Board's financial advisor, has reviewed the detailed assumptions and projections included in the proformas. June 30, 2000, independent audit reports and updated consultant projections are currently being completed.

Bond Rating Agency Review

At the time of the July Board meeting, it was anticipated that a meeting with the bond rating agencies would be arranged before the September Board meeting. After consultation with Mr. Fick and the rating agency staff, it was determined that it would be very difficult to arrange such meetings during this time period. It was also agreed that these discussions would be more productive if the University were able to include year-end financial data for June 30, 2000, and Fall 2000 actual enrollment and residence system occupancy data.

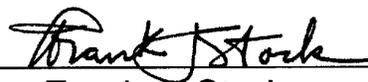
Meetings with the bond rating agency representatives have been scheduled for early October. A report on the meetings will be presented at the October Board meeting.

Subject to the outcome of these meetings, the University reports that it will work with the Board Office staff, and the Board's bond counsel and financial advisor to make recommendations for subsequent action by the Board. If it is determined that a recommendation to proceed is appropriate, proposed bond sales are likely to be included on the Calendar Year 2001 Bond Issuance Schedule, which is planned to be presented to the Banking Committee in November 2000.

In addition to continuing the above planning, the University will be working on the design development of the Union Drive Neighborhood project with the design team, which as requested in July, will be presented for Board approval before any further detailed construction plans or actual bond sale would occur.

  
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Joan Racki

Approved:

  
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Frank J. Stork