

November 7, 2018

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: University of Utah – Authorization for Legislative Bond Authority

Issue

As required by Regent Policy R590, *Issuance of Revenue Boards for Colleges and Universities* the University of Utah requests authorization to seek legislative approval to issue revenue bonds to purchase a leased building in downtown Salt Lake City. The University will return to the Board for formal approval to purchase the property at a later date.

Background

The University of Utah currently leases approximately three-fourths of the 192,000 square foot office building known as 102 Tower located at 102 South 200 East in Salt Lake City. Occupants of the building include the information technology departments of the University of Utah and the University Hospital as well as the medical billing department for the School of Medicine. The current lease includes a purchase option for the entire building set at \$50,000,000, which the University intends to exercise by the contract date of February 28, 2021.

A financial analysis by the institution finds that purchasing the property will save approximately \$9.9 million over the remaining term of the lease. The analysis includes projected debt service on a \$50 million revenue bond, operating expenses to maintain and oversee the facility, current lease expenses, and projected revenue from tenants occupying the other quarter of the building. A summary of the analysis is provided below and additional information is contained in the attached slides prepared by the University.

Projected Debt Service	\$ (27,416,000)
Projected Operating Expenses	\$ (9,972,000)
Projected Revenue from Leasing	\$ 19,205,000
Post-Purchase Projected Expense:	\$ (18,183,000)
Current Projected Lease Expense:	\$ (28,043,000)
Projected Savings:	\$ 9,860,000

The University of Utah requests Regent approval to seek legislative bonding authority for the purchase of the 102 Tower property. While the University does not intend to purchase the property until 2019 or 2020, legislative authority provides flexibility in timing to be able to make the purchase. The University will return to the Board of Regents to obtain final approval to close on the property after completing the due diligence including an appraisal, title review, 3rd party review of mechanical, electrical, plumbing and structural systems, and a phase I environmental survey.

Additional information may be found in the attached letter and presentation materials from the institution. Representatives from the University will be in attendance at the meeting to provide additional information and answer questions from the Board.

Commissioner's Recommendation

The Commissioner recommends approving the University of Utah to seek legislative authority to issue up to \$50,000,000 of revenue bonds to exercise a lease-purchase option for property in Salt Lake City.

David L. Buhler
Commissioner of Higher Education

DLB/KLH/RPA
Attachments

October 19, 2018

Mr. David Buhler
Commissioner
Board of Regents Building, The Gateway
60 South 400 West
Salt Lake City, Utah 84101-1284

Dear Commissioner Buhler:

The University of Utah hereby requests approval from the Board of Regents' to proceed with seeking bonding authorization from the state legislature to support exercising its Purchase Option for the 102 Tower in Salt Lake City, Utah at either the 2019 or 2020 legislative session. The purchase price has been set within the existing Lease Agreement at \$50,000,000 until February 28, 2021. Following appropriate due diligence, the University will come back to the Regents to obtain approval to close on the property acquisition.

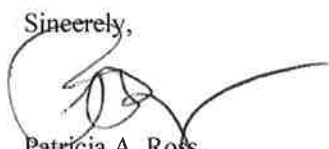
The 102 Tower in downtown Salt Lake City, is the home of the University's IT groups for both the academic campus and health system. The ability to purchase the 102 Tower presents an opportunity to significantly reduce annual ongoing occupancy expenses for the University. O&M, debt service and reserve funding following an acquisition represent annual costs that are an average of \$1.2M less than the current lease obligations. This represents a total savings over the remaining term of the lease agreement of \$9.9M. Additional details on this request can be found in the attached slides.

The University of Utah's Board of Trustee's reviewed and approved this request for bonding authorization during their meeting on October 9, 2018.

Accordingly, Jonathon Bates, Executive Director of Real Estate Administration, would appreciate an opportunity to present this bonding authorization to the Finance and Facilities Committee at the November 16, 2018 Board of Regents meeting.

Thanks, as always, for your consideration and support.

Sincerely,



Patricia A. Ross
Chief Business Strategy Officer

c: Dr. Ruth V. Watkins
Dr. Kimberly Henrie
Richard P. Amon
Jonathon Bates



THE UNIVERSITY OF UTAH

I02 Tower Bonding Authorization

Presented by:

Jonathon Bates

Executive Director – Real Estate Administration

November 16, 2018

Recommendation

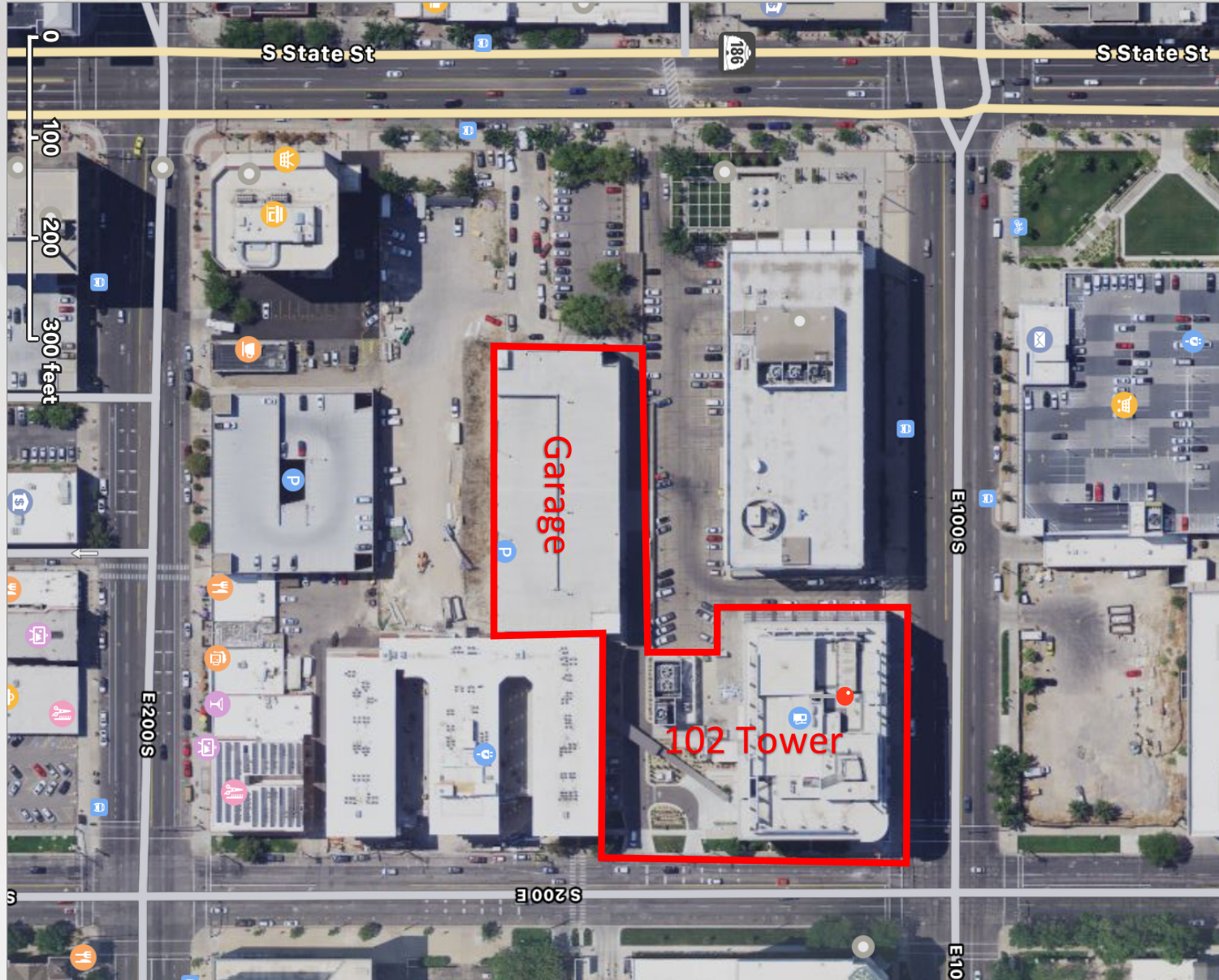
The University of Utah has a Purchase Option as a component of its Lease Agreement for the 102 Tower.

Recommend approval to proceed with bonding authorization to support exercising Purchase Option. Closing on the acquisition to be contingent on successful completion of due diligence.

- Purchase price set at \$50M.
- Current market value estimated at \$75M.



THE UNIVERSITY OF UTAH





THE UNIVERSITY OF UTAH



Occupant Summary

- University occupies 74% of the building
 - Building is a total of 192,037 sf
- TOTAL FTE's: 891
 - University IT: 281
 - Hospital IT: 400
 - Medical Billing for SOM: 210

The Why

Purchase Date:

1-Jul-19

	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27 (Partial)	TOTAL
Current Projected Expense:	\$ 3,287,349.35	\$ 3,384,108.62	\$ 3,487,182.55	\$ 3,597,805.43	\$ 3,717,457.11	\$ 3,847,912.06	\$ 3,991,298.22	\$ 2,729,801.36	\$ 28,042,914.69
Projected Debt Service & Reserve:	\$ 3,384,500.93	\$ 3,625,728.76	\$ 3,622,450.66	\$ 3,620,589.01	\$ 3,620,899.93	\$ 3,618,344.18	\$ 3,554,230.33	\$ 2,369,486.88	\$ 27,416,230.68
Projected Operating Expenses:	\$ 1,163,804.69	\$ 1,202,054.40	\$ 1,241,618.37	\$ 1,282,544.38	\$ 1,324,882.05	\$ 1,368,682.91	\$ 1,414,000.52	\$ 973,927.01	\$ 9,971,514.33
Projected Revenue:	\$ (2,295,142.42)	\$ (2,352,793.55)	\$ (2,412,623.79)	\$ (2,474,805.49)	\$ (2,539,532.95)	\$ (2,610,682.78)	\$ (2,681,737.64)	\$ (1,837,446.53)	\$ (19,204,765.16)
Post Purchase Projected Expense:	\$ 2,253,163.20	\$ 2,474,989.61	\$ 2,451,445.24	\$ 2,428,327.90	\$ 2,406,249.03	\$ 2,376,344.31	\$ 2,286,493.21	\$ 1,505,967.36	\$ 18,182,979.85
Projected Savings:	\$ 1,034,186.15	\$ 909,119.01	\$ 1,035,737.31	\$ 1,169,477.53	\$ 1,311,208.08	\$ 1,471,567.75	\$ 1,704,805.02	\$ 1,223,833.99	\$ 9,859,934.84

- Purchase price of \$50M funded via bonds.
 - Debt service projection provided by Treasury Services.
- Repayment of unamortized abated rent of \$2.6M.
 - Paid for by cash from UIT/ITS reserves at closing; not a component of bonding.
 - Included in proforma.
- Proforma of remaining term of lease (7 yrs, 8 mths)
 - Average annual reduction in cost of \$1.2M.
 - Total savings over term of \$9.9M.

Purchase Approval Schedule

- Board of Trustees Campus Master Plan Committee
 - September 25, 2018
- Board of Trustees
 - October 9, 2018
- Board of Regents
 - November 16, 2018
- Bonding authorization will be sought during the 2019 or 2020 session of the State of Utah Legislature.
- Approval to close to be contingent on completion of the following due diligence items:
 - Appraisal
 - Title review and ALTA survey
 - 3rd party review of mechanical, electrical, plumbing and structural systems.
 - Phase I Environmental survey

Recommendation

The University of Utah has a Purchase Option as a component of its Lease Agreement for the 102 Tower.

Recommend approval to proceed with bonding authorization to support exercising Purchase Option. Closing on the acquisition to be contingent on successful completion of due diligence.

- Purchase price set at \$50M.
- Current market value estimated at \$75M.