EXECUTIVE SUMMARY

Item Name: **FY 2022 Capital Development Plan (UArizona)**

☒ Action Item

Requested Action: The University of Arizona (UArizona) asks the board to approve its FY 2022 Capital Development Plan (CDP), which includes a request for a budget increase for the Center for Integrative Medicine project, as described in this executive summary.

Previous Board Action

- FY 2020 Capital Development Plan November 2019

Prior Year Activity

- One (1) capital project totaling $34,000,000 was substantially completed in the last 12 months.
- Six (6) capital projects, totaling $370,000,000 began or were under construction activity in the last 12 months.
- Detail on completed and ongoing projects are listed in Exhibit 1.

Overview and Alignment with Enterprise and University Goals and Objectives

- UArizona's FY 2022 CDP includes one budget increase request for the Center for Integrative Medicine totaling $3,000,000 for a revised project budget of $23,000,000.
- UArizona has developed the CDP to align with its Strategic Plan and Campus Master Plan, and with the system enterprise strategic goals and objectives.
- The primary institutional priorities supported by the CDP include:

  Academic Success: Facility investment and development are targeted toward student success, academic excellence, diversity, and accessibility as measured by our strategic plan goals for enrollment, retention, graduation rates, and degrees awarded.

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Research & Development: University research greatly contributes to the quality of life and economic vitality of our state. Sponsored research expenditures include the purchase of local goods and services which help to create new companies and employment benefits. Research and development provide hands-on experience for students while attracting top research talent and giving the state a competitive advantage in core areas such as science, technology, and medicine. Facilities, research faculty, and sponsored grants are key to meeting the objectives of the ABOR 2025 Vision Plan.

Campus Operations and Infrastructure Priorities: To advance our academic success and research goals, our facilities and related infrastructure must be safe, reliable, and operational. Building and utility systems must be efficient to operate and maintain to reduce the burden on reduced operational funds. Spaces and systems must maximize functionality and performance while minimizing investments.

Life Safety & Code Compliance: Life safety is our highest priority in ensuring a safe, functional, and serviceable environment for students, faculty, staff, and visitors. This priority is established for new and existing facilities alike.

Community Service Opportunities: Engaging and serving Arizona communities are integral to the University's mission and land grant responsibilities. Our community outreach and service efforts are focused on the quality of life and economic prosperity in Arizona.

Construction Market Conditions: The current construction market is active with increasing labor shortages and accompanying price escalations for the foreseeable future. It is advisable to proceed with projects and lock-in prices to minimize additional escalation for the University.

Funding Sources & Financing Options: Project funding and financing are carefully considered on a project-by-project basis and take advantage of opportunities to minimize impacts to tuition. State appropriations, gift funding and indirect cost recovery are leveraged and maximized while fees, tuition and operational funding are carefully metered for highest yield. At all times the University's financial strength, standing and ratings are considered to ensure long term stability and success.

Capital Development Plan Projects

- The following project is being submitted for budget increase approval:
    - Center for Integrative Medicine

- Additional detail on project costs, financing, and scope can be found in the tables in Exhibits 2 & 3, and the individual Project Justification Report is attached.

Fiscal Impact and Management

- UArizona's CDP includes one updated project, the Center for Integrative Medicine. This project will cost a total of $23 million and will be financed using gift funds.

- There is no expected debt service for this project. The total operating and maintenance (O&M) cost is estimated to be $203,400. UArizona plans to use Other Local Funds to pay the O&M cost.

- **Debt Ration Impact:** There is no impact to UArizona's debt ratio.

Committee Review and Recommendation

The Finance, Capital and Resources Committee reviewed this item at its May 27, 2021 meeting, and recommended forwarding the item to the full board for approval.

Statutory/Policy Requirements

- Pursuant to ABOR Policy 7-107, each university shall submit an annual CDP for the upcoming year in accordance with the calendar approved by the executive director of the board.

- CDPs are reviewed by the Finance, Capital and Resources Committee and approved by the board.

- Approval of the CDP allows universities to complete design, execute construction and financing agreements, and begin construction as outlined in policy.

EXECUTIVE SUMMARY

EXHIBIT 1

UNIVERSITY OF ARIZONA
CAPITAL PROJECT STATUS REPORT

Project Name	Gross Square Feet	Total Budget	Percent Work Completed **	Percent Total Expended **	Gift Target	Percent to Gift Target **	Date Last Board Approval	Original /Revised Occupancy Date
Ongoing Projects								
Student Success District	201,346	$81,000,000	85%	75%	$10,000,000	100%	Jun 17	Nov 21
Applied Research Building / Campus Infrastructure	89,000	$85,000,000 / $16,000,000	7%	7%	NA	NA	Nov 19	Dec 22
Grand Challenges Research Building	115,000	$99,000,000	7%	7%	NA	NA	Nov 19	Feb 24
Chemistry Building Renovations	75,000	$42,000,000	8%	8%	NA	NA	Nov 19	Jan 23
Center for Integrative Medicine++	29,400	$23,000,000	7%	7%	$23,000,000	76%	Nov 19	Oct 22
Facilities Management Relocation and Consolidation Facility	70,000	$24,000,000	7%	7%	NA	NA	Nov 19	Apr 22
Ongoing Project Totals		$370,000,000			$33,000,000			
Completed Projects								
Phoenix Biomedical Sciences Partnership 3rd & 4th Floor Finish Shell Space	46,100	$34,000,000	93%	71%	NA	NA	Nov 18	Feb 21
Completed Project Totals		$34,000,000						

++Budget Revised in FY22 CDP

**As of July 1, 2020

EXECUTIVE SUMMARY

EXHIBIT 2

UNIVERSITY OF ARIZONA

CAPITAL DEVELOPMENT PLAN

PROJECT	BOARD APPROVAL STATUS	GROSS SQUARE FOOTAGE	PROJECT COST	AMOUNT FINANCED	FUNDING METHOD	ANNUAL DEBT SERVICE	FINAL MATURITY	DEBT RATIO
NEW REVISED CAPITAL PROJECT								
Center for Integrative Medicine	CDP FY2020	29,400	**$23,000,000**	NA	Gifts	NA	NA	NA

EXHIBIT 3

CAPITAL DEVELOPMENT PLAN

ANNUAL DEBT SERVICE BY FUNDING SOURCE

PROJECT	AMOUNT FINANCED	TUI	SFE	ICR	OLF	SCI	SLP	OTH	TOTAL ANNUAL DEBT SERVICE
NEW REVISED CAPITAL PROJECT									
Center for Integrative Medicine	NA								

EXHIBIT 4

CAPITAL DEVELOPMENT PLAN

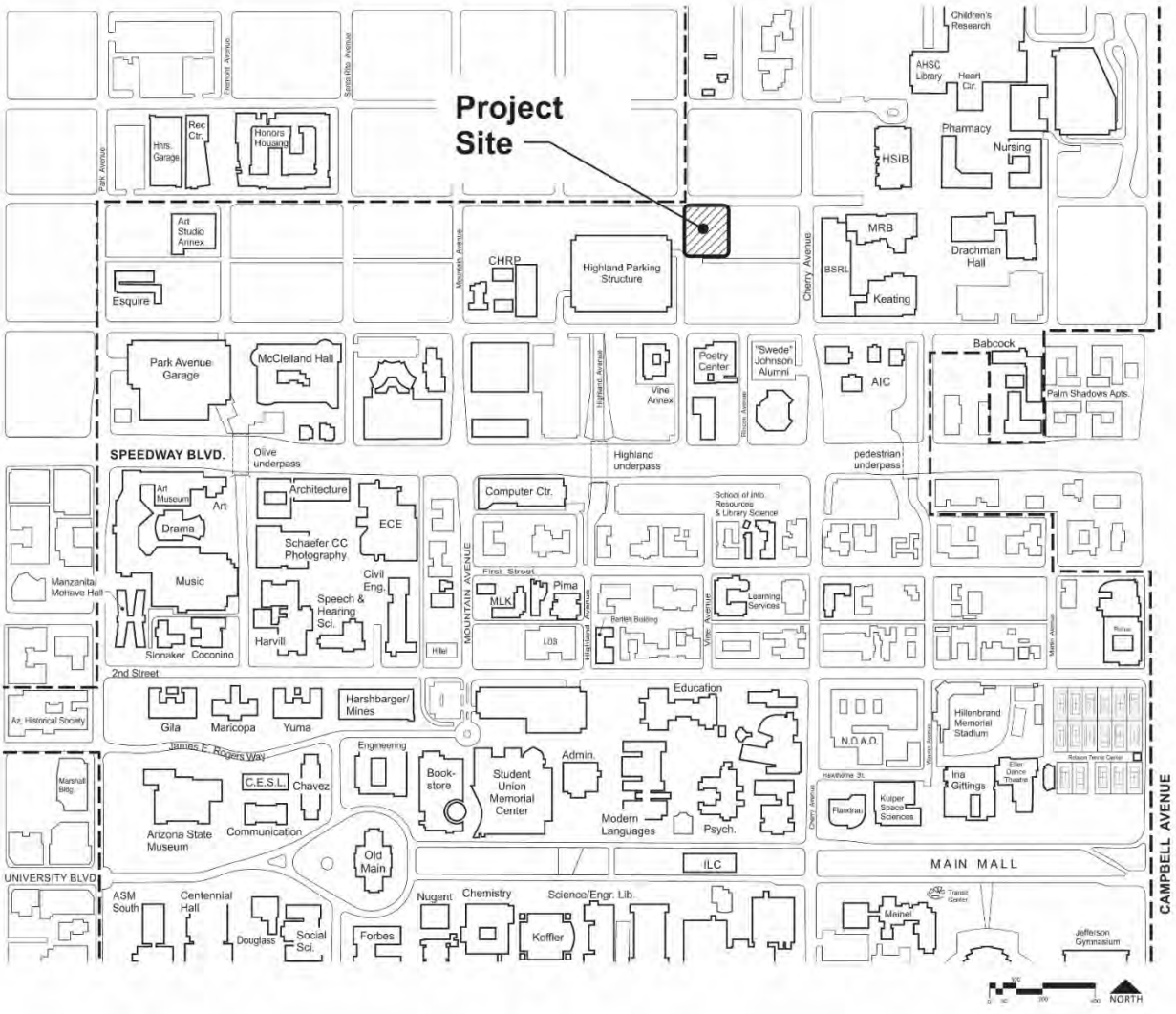
ANNUAL OPERATION AND MAINTENANCE BY FUNDING SOURCE

PROJECT	TOTAL ANNUAL O&M	TUI	SFE	ICR	OLF	GFA	FGT	DFG	OTH
NEW REVISED CAPITAL PROJECT									
Center for Integrative Medicine	$203,400				$203,400				

EXECUTIVE SUMMARY

Project Site Map

Center for Integrative Medicine



THE UNIVERSITY OF ARIZONA

2021 DEBT CAPACITY

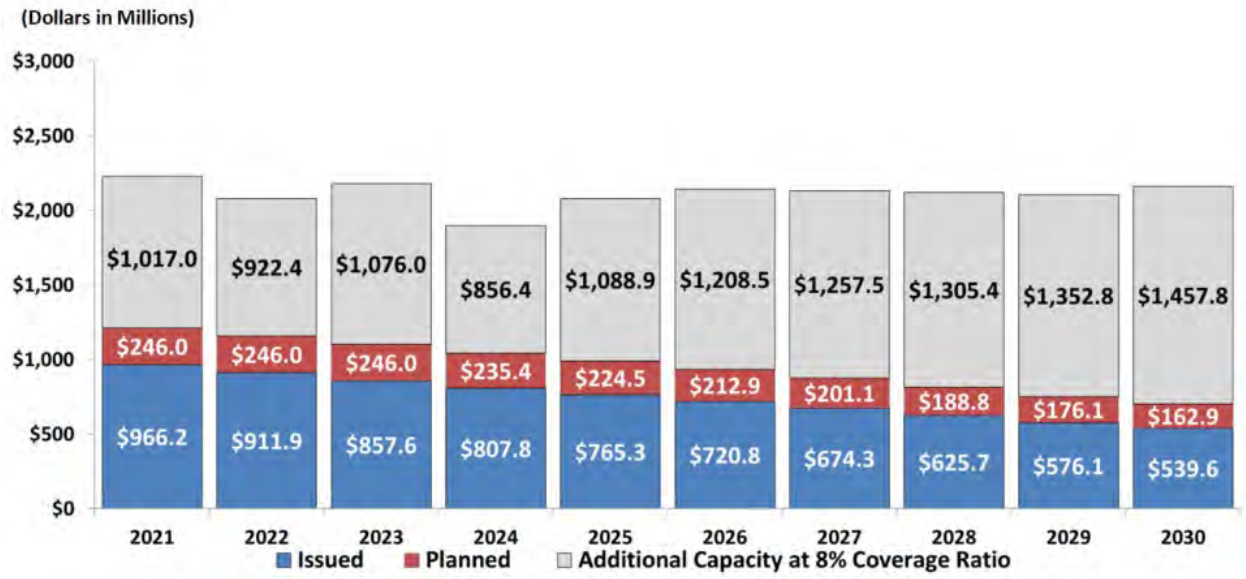
PURPOSE

To demonstrate the University of Arizona's ability to finance additional capital investment through debt instruments and to fund the related debt service (principal and interest).

PROJECTED DEBT CAPACITY

The debt capacity report includes four projects from the Capital Development Plan (CDP): Applied Research Building, Grand Challenges Research Building, Chemistry Building Renovation, and Facilities Management Relocation and Consolidation Facility. With the financing of the projects listed, the projects highest debt ratio is 5.4 percent in FY 2024, relative to the ABOR policy and statutory debt limit of 8 percent. The University outstanding debt in that year is projected to be $1.50 billion. The year with the highest debt service will be FY 2024 at $114.7 million. The 5.4 percent ratio is within the range used by the bond rating firms to judge an institution's creditworthiness to service debt.

Maximum Projected Debt Service to Total Expenditures Excluding/Including SPEED debt
5.4% / 6.6%



UArizona projects outstanding debt (issued) to decline from $966.2 million in FY 2021 to $539.6 million in FY 2029 as debt is retired. The planned debt includes financing of the projects listed in the paragraph above. Additional debt capacity represents debt that can be issued in any given year based on the statutory 8 percent debt ratio limit.

EXECUTIVE SUMMARY

FUTURE PROJECTS

Projects listed are from the prior CDP and will be issued prior to the end of FY2021. These planned projects are included in the Debt Capacity assumptions. There are no additional debt financed projects in the current CDP.

	Project Budget	Amount Financed**
Applied Research Building*	$ 101,000,000	$ 76,100,000
Grand Challenges Research Building*	99,000,000	75,800,000
Chemistry Building Renovation*	42,000,000	32,500,000
Facilities Management Facility	24,000,000	12,100,000
Total	$ 266,000,000	$ 196,500,000

** Includes funding from State Capital Appropriation HB2547*
*** Financed amount based on pre-pricing data available April 2021*

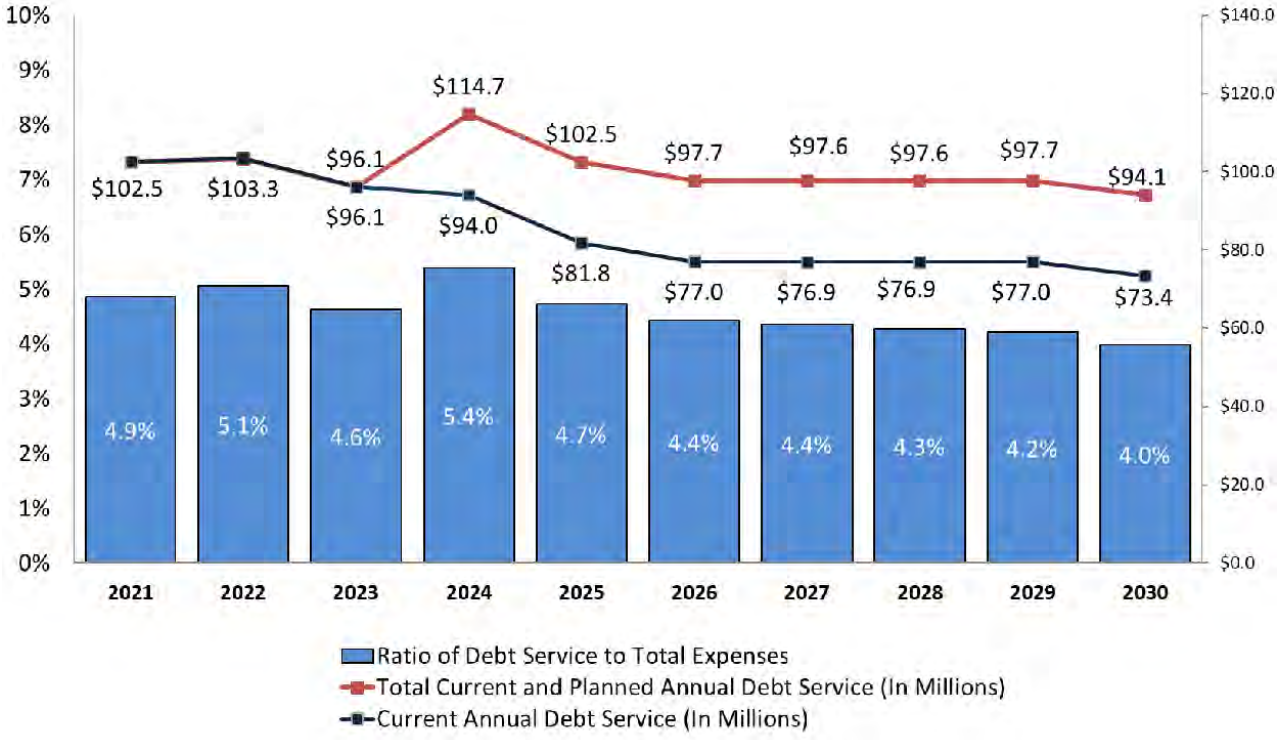
CREDIT RATINGS

UArizona's current credit rating is Aa2 (Moody's) and AA- (S&P). Positive rating factors include UArizona as the flagship and land-grant institution, as well as its important role in the provision of medical education for the State of Arizona. The university continues to have growing and diverse research programs and sizable sponsored research funding with diverse sources. Offsetting factors include weakened operating performance, thinning, but adequate, debt service coverage, and high leverage compared to Moody's median peers.

	Moody's		Standard & Poor's (S&P)	
Fiscal Year	Rating	Outlook	Rating	Outlook
2016	Aa2	Stable	AA-	Stable
2017	Aa2	Stable	AA-	Stable
2018	Aa2	Stable	AA-	Stable
2019	Aa2	Stable	AA-	Stable
2020	Aa2	Stable	AA-	Stable
2021	Aa2	Negative	AA-	Stable

RATIO OF DEBT SERVICE TO TOTAL EXPENSES

Annual debt service on System Revenue Bonds (SRBs) and Certificates of Participation (COPs) is projected to increase from $111.4 million in FY 2021 to a maximum of $114.7 million in FY 2024. The ratio of debt service to total expenses is projected to peak in FY 2024 at 5.4 percent relative to the 8 percent statutory limit. The peak planned debt ratio includes debt service for the projects listed on the previous page. The Stimulus Plan for Economic and Educational Development (SPEED) bonds are funded up to 80 percent by state lottery revenues, with the balance funded by the University. SPEED debt service is excluded from the statutory debt ratio. If SPEED debt were included, the debt ratio is projected to peak in FY 2024 at 6.6 percent. The maximum projected annual debt service including SPEED is $140.4 million in FY 2024.



Arizona Board of Regents
The University of Arizona
FY 2022 Capital Development Plan (CDP)
Project Justification Report

Center for Integrative Medicine

Previous Board Action

- Capital Improvement Plan FY 2021-2023 September 2019
- Capital Development Plan FY 2020 November 2019

Statutory/Policy Requirements

- Pursuant to ABOR Policy 7-102(B)(1), all capital projects with an estimated total project cost of $10,000,000 or more, including information technology and third-party projects, shall be included in the Capital Development Plan.

- Pursuant to ABOR Policy 7-107(E)(4)(b), approval is required for any project cost increases.

Project Justification, Description, and Scope

- This new building for the Center for Integrative Medicine (CIM) will be located North East of the Highland Parking Garage at Mabel Street and Vine Avenue, on the campus of the University of Arizona, Tucson, Arizona. The Center for Integrative Medicine and its exterior spaces will house the following basic functions: clinical simulation, educational, culinary demonstrations, meditation, and administrative spaces. The Center will facilitate the fundamental goal of creating a physical environment that supports the evidence-based philosophy of integrative medicine while reflecting a distinctive life-enhancing environment that will attract the local community, national and international visitors.

- Locating the CIM on the campus of the University of Arizona and adjacent to the Health Sciences is critical to the Centers' vision, goals, and future growth.

- This project encompasses 29,400 Gross Square Feet (GSF), which includes 18,300 Net Assignable Square Feet (NASF). The project also includes development of

outdoor meditation garden space and leverages the existing adjacent green spaces to the west.

- The budget increase for this project is requested for several reasons. Recent construction materials cost increases have reduced the capacity of the previous budget to realize the vision of the Andrew Weil Center for Integrative Medicine that has been in design over the last two years. Also, the unique aspects of this facility design include a multi-building complex representing mind, body, and spirit to reflect the nature of the Center's philosophical approach to wellness, medicine, and personal health in all these areas, and comparable projects used to develop the original budget do not match the cost of the facility desired to fulfill the unique requirements of the Center. Additionally, after further evaluation of the site, it became apparent that additional parking spaces will need to be purchased to develop the project on the selected site.

Project Delivery Method and Process

- This project is being delivered through the Construction Manager at Risk (CM@Risk) method. This approach was selected for the project because it can save time and cost through fast-track project scheduling, provides contractor design input and coordination throughout the project, improves potentially adversarial project environments, and allows for the selection of the most qualified contractor leadership team for this project. Through peer-review of the CM@Risk's cost estimates at each phase, and low-bid subcontractor pricing for the actual construction work, this method also provides a high level of cost and quality control.

- The CM@Risk has been selected through the capital project selection committee process prescribed by the ABOR Procurement Code. A licensed contractor was included on the selection committee as required by ABOR policy. The design team has been selected through a similar ABOR process.

Project Status and Schedule

- Project is in the construction documentation phase.

- Project construction is scheduled to commence during summer of 2021 and will be completed during summer/fall of 2022.

Project Cost

- The newly revised total project budget is $23 million, with a construction cost of $16,775,000 million.

- The construction budget for this project was generated as part of a gift agreement. As the project progresses, peer reviews of the CM@Risk's estimates will be reconciled by the Project Team.

Fiscal Impact and Financing Plan

- The University plans to use $23 million in gift funds for the Center for Integrative Medicine Building with a total project budget of $23 million.

- The operations and maintenance (O&M) cost for the building is estimated to be $203,400. Other local funds will be utilized to fund the O&M cost.

Debt Ratio Impact

- This project will have no impact on the University's debt ratios because no debt will be issued to finance this project.

Occupancy Plan

- This facility will provide new space for new and existing faculty and staff. It is anticipated that some of the existing space will be retained by Health Sciences when the CIM staff and faculty are relocated to their new building. The existing facilities will not be demolished and will be re-assigned by Health Sciences.

Capital Project Information Summary

University: The University of Arizona
Project Name: Center for Integrative Medicine

Project Description / Location:
This new building for the Center for Integrative Medicine (CIM) will be located North East of the Highland Parking Garage at Mabel Street and Vine Avenue, on the campus of The University of Arizona, Tucson, Arizona. The Center for Integrative Medicine and its exterior spaces will house the following basic functions: clinical simulation, educational, culinary demonstrations, meditation, and administrative spaces. The Center will facilitate the fundamental goal of creating a physical environment that supports the evidence-based philosophy of integrative medicine while reflecting a distinctive life-enhancing environment that will attract the local community, national and international visitors.

Locating the CIM on the campus of the University of Arizona and adjacent to the Health Sciences is critical to the Centers' vision, goals, and future growth.

	FY2020 Capital Development Plan November 2019	FY2022 Capital Development Plan June 2021
Project Schedule (Beginning Month/Year):		
Planning	Summer 2019	Summer 2019
Design	Summer 2019	Fall 2019
Construction	Fall 2020	Summer 2021
Occupancy	Fall 2021	Summer 2022
Project Budget:		
Total Project Cost	$ 20,000,000	$ 23,000,000
Total Project Cost per GSF	$ 588	$ 782
Direct Construction Cost - New	$ 14,185,000	$ 16,775,000
Construction Cost per GSF - New	$ 417	$ 570
Change in Annual Oper. /Maint. Cost		
Utilities	$ 75,000	$ 61,700
Personnel	$113,800	$94,800
Other	$56,100	$46,900
Funding Sources:		
Capital:		
• Gifts	$ 20,000,000	$ 23,000,000
Operation/Maintenance:		
• Other Local Funds	$ 244,900	$ 203,400

Capital Project Budget Summary

University: The University of Arizona
Project Name: Center for Integrative Medicine

Date of Budget Estimate				FY2020 Capital Development Plan November 2019	FY 2022 Capital Development Plan June 2021
1.	Land		$	0	0
2.	Construction Cost				
	A.	New Construction	$	13,190,000	16,275,000
	B.	Renovation	$	0	0
	C.	Fixed Equipment	$	500,000	500,000
	D.	Site Development (exclude 2.E.)	$	25,000	incl. in 2A
	E.	Parking & Landscaping	$	0	incl. in 2A
	F.	Utilities Extensions	$	470,000	Incl. in 2A
	G.	Other (asbestos only)	$	0	0
	Subtotal Construction Cost		**$**	**14,185,000**	**16,775,000**
3.	Consultant Fees				
	A.	Construction Manager	$	105,000	120,000
	B.	Architect/Engineering Fees	$	1,650,000	1,700,000
	C.	Other (Programming, Special Conslt.)	$	175,000	180,000
	Subtotal Consultant Fees		**$**	**1,930,000**	**2,025,000**
4.	Furniture Fixtures and Equipment		$	705,000	750,000
5.	Contingency, Design Phase		$	650,000	450,000
6.	Contingency, Construction Phase		$	650,000	840,000
7.	Parking Reserve		$	600,000	800,000
8.	Telecommunications Equipment		$	425,000	450,000
	Subtotal Items 4-8		**$**	**3,030,000**	**3,290,000**
9.	Additional University Costs				
	A.	Surveys and Tests	$	140,000	170,000
	B.	Move-in Costs	$	15,000	15,000
	C.	Public Art	$	0	0
	D.	Printing/Advertisement	$	5,000	5,000
	E.	Univ. Facilities & Project Mgmnt.	$	595,000	620,000
	F.	State Risk Mgt. Ins	$	100,000	100,000
	Subtotal Additional University Costs		**$**	**855,000**	**910,000**
TOTAL CAPITAL COST			**$**	**20,000,000**	**$23,000,000**