

FY 2017
Capital Development Plan
Northern Arizona University

Revised April 2017

EXECUTIVE SUMMARY**Item Name: FY 2017 Revised Capital Development Plan (NAU)**

- Action Item
- Committee Recommendation to Full Board
- First Read of Proposed Policy Change
- Information or Discussion Item

Issue: Northern Arizona University asks board approval of its FY 2017 Revised Capital Development Plan (CDP), which includes one new project, a privatized residence hall with academic and core student support space for the Honors Community. The CDP financial impact totals \$9.9 million.

Previous Board Action

- FY 2018 – 2020 Capital Improvement Plan September 2016
- FY 2017 Capital Development Plan June 2016

Enterprise or University Strategic Plan

- Empower Student Success and Learning
- Advance Educational Attainment within Arizona
- Create New Knowledge
- Impact Arizona
- Compliance
- Real property purchase/sale/lease
- Other:

Statutory/Policy Requirements

- Pursuant to Arizona Board of Regents Policy Chapter 7-107, each university shall submit an annual Capital Development Plan for the upcoming fiscal year in accordance with the calendar approved by the President of the Board. The CDP may also be considered for revisions and include the addition of new projects, project budget adjustments, and deletion of projects.
- Capital Development Plans are reviewed by the Business and Finance Committee and approved by the Board.

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- Approval of the CDP allows universities to complete design and planning in preparation for submitting individual projects for final approval by the Business and Finance Committee, with a final report to the full Board.

Project Justification/Description/Scope

- NAU outlined plans for this project in the Capital Improvement Plan (CIP) and began presenting information at the September ABOR meeting as part of the Operational and Financial Review. This revision to the CDP moves the timeline of the project up into this fiscal year to target having the project open for the 2018-19 academic year.
- Northern Arizona University's FY 2017 Revised CDP includes this new project for a third-party privatized residence hall with academic and core student support space for the Honors College Community. This project will have a negotiated ground lease between American Campus Communities (ACC) and Northern Arizona University in which ACC will construct the Honors Community. NAU will seek project approval and approval to enter into a ground lease in a separate Board Action Item, as well as seek favorable JCCR review prior to beginning construction in accordance with ABOR policy.
- Through its agreement with NAU, ACC will construct new suite style Honors housing on the Flagstaff campus. The proposed project is 630 beds and will serve first-year Honors students. In addition, approximately 22,294 square feet will be constructed within the facility to serve core student support and academic needs of the Honors College. This space will consist of classrooms, study spaces, academic learning spaces and Honors faculty and administrative offices. Additional project information is detailed in the attached Project Justification Report.
- NAU continues to align capital projects with the approved university campus master plan and the system enterprise and university strategic goals and objectives. These projects support NAU's strategic goals including:
 - Meeting the 2025 Enterprise metrics targets for undergraduate enrollment by providing the necessary student housing component enabling NAU to continue as a premier residential campus while serving a growing student population.
 - Increasing student retention by providing on-campus housing options with academic and other support programs shown to improve student success.
 - Supporting the university mission to provide an outstanding undergraduate residential education. This past fall semester, NAU had over 600 triple-

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occupancy rooms and over 100 students in temporary spaces at the beginning of the semester. As the entering class continues to grow, more upperclassmen are being displaced from NAU housing.

- Aligning university facilities with the campus master plan approved by the Board in September 2010 and contributing to creating an expanded workable, livable and sustainable campus.
- In November 2016 NAU received approval to create an Honors College, to enhance efforts to meet ABOR goals 1 & 2 (educate and achieve), by promoting the highest levels of academic quality and curricular innovation. NAU currently has 1,055 students in its Honors program with an anticipated growth of 125 per year as a College. These students are currently disbursed throughout residence spaces on campus, with many of the new incoming freshman residing in Calderon Learning Community. The incoming class this past fall was approximately 550, exceeding the capacity in Calderon by approximately 75 students. Development of an Honors community is critical to continued success and expansion of the Honors College.
- NAU's Operational and Finance Review noted that expanding its high achieving student recruitment strategy through the development of an Honors College in combination with exceptional curricular experiences will help attract and retain honors students at NAU.
- In addition, the following primary institutional priorities for capital projects at NAU include:
 - **Student Support Requirements:** New facilities and student success programs must be provided to assure successful student recruitment, housing, socialization, retention and graduation. The model of a residential campus is successful in increasing and maintaining student retention rates as well as enhancing the student experience. As the entering freshman class size at NAU continues to grow, upperclassmen are being displaced from NAU housing. This project will build approximately 630 new beds to meet the increasing demand, as well as provide dedicated academic and student support space for the Honors program.
 - **Funding Sources & Financing Options:** Project funding and financing are carefully considered for every individual project, to take advantage of opportunities, to maximize the resources available with minimal impacts on tuition rates and to responsibly manage the assets of the University.

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Impacts to tuition are avoided when possible. Financial resources are judiciously utilized to meet the highest institutional priorities and the University's financial strength and standing must be preserved. Constructing a privatized residence hall enables the University to preserve its debt ratio and bonding capacity for academic and other facility needs.

Fiscal Impact and Financing Plan:

- Northern Arizona University is working with a third-party developer to minimize the capital outlay by the University. ACC will fund the entire project total construction cost, estimated at \$58.8 million with 25% equity and 75% debt funding provided by the developer. The University will enter into a Master Sublease to manage and provide programming in the residential facility with NAU Residence Life staff.
- The University will sublease the Honors Community Academic space including classrooms and core student support space through a long term lease agreement. The University plans to issue system revenue bonds prior to June 2018 to finance this \$9.9 million project reimbursement. Debt service will be paid from tuition and program fee revenue.
- ACC is responsible for all costs and expenses of maintaining the residence portions of the project, including reasonable reserve deposits.
- ACC is responsible for maintaining the academic and core student support space, expected to be approximately \$95,000 a year. ACC will bill NAU for this maintenance with NAU using auxiliary revenue to pay this expense.

Debt Ratio Impact:

- The projected incremental debt ratio impact from this proposed CDP project for the Honors Community Academic Space on system revenue bond debt service is .16 percent from 5.32% to 5.48% utilizing the not to exceed 6% rate.
- The tables in Exhibits 1 and 2 provide details on project financing, funding sources and debt ratio impact.

Requested Action

Northern Arizona University asks the committee forward to the full board for approval of the Revised FY 2017 Capital Development Plan, as presented in this Executive Summary.

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Project	Board Approval Status	Gross Square Footage	Project Cost	Amount Financed	Funding Method	Annual Debt Service ¹	Debt Ratio
Academic/Support Projects							
No new projects							
New Academic/Support Projects Total		-	\$ -	\$ -		\$ -	0.00%
New Auxiliary Projects							
No new projects							
New Auxiliary Total		-	\$ -	\$ -		\$ -	0.00%
Third-Party Projects							
Honors Community	CIP 9/2016	22,294	\$ 9,902,000	\$ 9,902,000	SRB	\$ 893,000	5.5%
Third-Party Total		22,294					
Resubmitted Projects							
NA							
Resubmitted Total							
TOTAL		22,294	\$ 9,902,000	\$ 9,902,000		\$893,000	5.5%

assumes 6% not to exceed rate

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EXHIBIT 2

**Annual Debt Service and Operation and Maintenance Costs
By Funding Source**

CAPITAL DEVELOPMENT PLAN - ANNUAL DEBT SERVICE BY FUNDING SOURCE											
Project	Amount Financed	301	TUI *	AUX *	ICR	OLF	SLP	FGT	DFG	OTH	TOTAL ANNUAL DEBT SERVICE
New Academic/Support Projects											
No new projects											
Academic/Support Projects Total	\$ -	\$ -	\$ -	\$ -							\$ -
New Third Party Projects											
Honors Community	\$ 9,902,000		\$ 893,000								\$ 893,000
Third Party Projects Total	\$ 9,902,000	\$ -	\$ 893,000	-	-		\$ -				\$ 893,000
Resubmitted											
N/A											
Resubmitted Total	\$ -	\$ -	-	-	-		\$ -				\$ -
Total	\$ 9,902,000	\$ -	\$ 893,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 893,000

CAPITAL DEVELOPMENT PLAN - OPERATION AND MAINTENANCE BY FUNDING SOURCE										
Project	TOTAL ANNUAL O&M	301	TUI	AUX	ICR	OLF	GFA	FGT	DFG	OTH
New Academic/Support Projects										
No new projects										
Academic/Support Projects Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Third Party Projects										
Honors Community	\$ 95,000			\$ 95,000						
Third Party Projects Total	\$ 95,000		\$ -	\$ 95,000		\$ -				
Resubmitted										
N/A										
Resubmitted Total	\$ -									
Total	\$ 95,000	\$ -	\$ -	\$ 95,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Debt Service Funding Source

Codes: (301) 301 Fund/Other (ICR) Indirect Cost Recovery (GFA) General Fi (OTH) Other
 (TUI) Tuition (OLF) Other Local Funds (FGT) Federal Grant
 (AUX) Auxiliary (SLP) State Lottery Allocation Proceeds (DFG) Debt Financed by Gifts

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**Arizona Board of Regents
Northern Arizona University
Capital Development Plan Project Justification Report
Privatized Residence Hall – Honors Community
(NAU Project Number: #09.999.171)**

1. Previous Board Action:

- Capital Improvement Plan FY18 – FY20 September 2016

2. Statutory / Policy Requirements:

- Board Policy 7-107 B.1. requires Capital Committee review and Board approval of the annual Capital Development Plan.
- Capital projects where the Board and the University share with other entities (public/private ventures) the control, financing, or ownership (current or future) of the project and/or its delivery process and that are subject to review under Board policy 7-207, shall be included in the Capital Development Plan and reviewed by the Business and Finance Committee and approved by the Board.

3. Project Justification/Description/Scope

- The mission of Northern Arizona University is to provide an outstanding undergraduate residential education strengthened by research, graduate and professional programs, and sophisticated methods of distance delivery. This project directly supports that mission by seeking to provide residential options for students within a vibrant community setting.
- Residence Life data indicates students who live on campus have a higher success rate than those who do not. Retention and graduation rates are considerably higher for those students residing in campus housing. Campus housing provides a safe, supportive learning environment. Even with the recent addition of new residence complexes and housing, much of the existing campus housing is aging and will require major mechanical renovation or replacement. In addition, these units will require modifications to meet student technology needs in order to remain competitive as a desired housing option on a residential campus.
- University housing exists to provide safe, clean, affordable housing that encourages student success, connection, engagement and involvement

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through student programming opportunities. Student success and retention rates improve significantly when students reside on campus, particularly among first-time freshmen. Purposeful student programming and the relationship development that occurs through having staff living in and interacting directly with students has been proven to increase student satisfaction, involvement and retention across the nation.

- Demand for on-campus, University–managed housing, continues to grow. This academic year NAU stopped accepting housing applications in May 2016 and opened the Fall 2016 semester with over 100 students in temporary housing.
- The NAU Flagstaff campus currently contains 7,548 (excluding family housing) NAU-owned housing units (available beds) that are in aging facilities. A large portion of the existing inventory, approximately 5,275 beds, is reserved for first-year students. Remaining inventory is reserved for sophomores wishing to remain on campus. Beginning in Fall 2016 for the 2016-2017 academic year, the private residence halls were first reserved and leased to continuing students, juniors and seniors, wishing to remain on campus.
- Through its agreement with NAU, ACC will construct new suite style Honors housing on the Flagstaff campus. The project is proposed to be 630 beds and serve first-year Honors students.
- In addition, approximately 22,294 square feet will be constructed within the facility to serve core student support and academic needs of the Honors College. This space will consist of classrooms, study spaces, academic learning spaces and Honors faculty and administrative offices.
- The project will be constructed to standards comparable to the most recent NAU residence halls, and will be maintained throughout the lease term in Class A condition. Construction documents are subject to NAU approval with input from a third-party group for Fire Life Safety.
- The project will include a landscaped courtyard and amenity spaces throughout the site. Amenity spaces include a Community Center space which includes: lobby, residence staffing offices, game room, study and social spaces throughout, computer lab, mail area and fitness center.

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4. Project Delivery Method and Process:

- American Campus Communities was selected as the developer through an RFP process. It was the University's intent to select a qualified developer that demonstrated superior knowledge, experience, organization, and financial ability to implement large, complex, and innovative projects. The method of selection was a two-phase process consisting of a submittal of qualifications followed by price proposals.
- Phase I Qualifications were based on an Executive Summary, Developer Profile/Information, Development Team Profile, Previous Development Experience and any additional information that may have assisted in the University's evaluation.
- A list of qualified developers was created from the submitted qualifications. Developers on the qualified list were requested to submit additional detailed information on Financials, Development Proposals, and other critical criteria. ACC was selected as the student housing developer from this procurement process.
- American Campus Communities currently has three ground leases and residence halls with the University from this RFP (The Suites I & II, Hilltop Townhomes, and SkyView). The Honors Community will be a new ground lease between ACC and NAU, similar in form and function to the previous leases.

5. Project Status and Schedule:

- Pending ABOR approval and favorable review from JCCR, NAU will enter into a Ground Lease, Master Sublease and Sublease with the project to begin construction in April 2017 with an anticipated completion date of August 2018.

6. Project Cost:

- Northern Arizona University is working with a third-party developer to minimize the capital outlay by the University. ACC will fund the entire project total construction cost, estimated at \$58.8 million with 25% equity and 75% debt funding provided by the developer. The University will enter into a Master Sublease to manage and provide programming in the residential facility with NAU Residence Life staff.

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- There will be no legal recourse to NAU in the event of a default by ACC on any financing and, except for the obligations noted above, the University has no obligation to support the facilities financially or to guarantee occupancy.
- The University will sublease the Honors Academic space including classrooms and core student support space through a long-term lease agreement. The University intends to issue system revenue bonds prior to June 2018 to finance this \$9.9 million project reimbursement. Debt service will be paid from tuition and program fee revenue.

7. Fiscal Impact and Financing Plan:

- **Operating Expenses** – ACC is responsible for all costs and expenses of maintaining the residence portions of the project, including reasonable reserve deposits. NAU is responsible for maintaining the academic and core student support space. Minimum Standards of Operation (both maintenance and staffing) are defined as equal to “Class A” privatized student housing.
- **Master Lease Agreement (Ground Lease)** – The project is to be administered by a Ground Lease Agreement between the University and ACC. The Ground Lease is for a period of 40 years with four 10-year options to renew.
- **Lease Payments**– NAU will receive rental payments in the form of annual base rent (i.e. Ground Rent) plus out performance rent should the project yield revenue in excess of the required return threshold.
- **Master Sublease** – NAU enter into a Master Sublease to manage and provide the residential life programming and staffing for the residential space as well as enforce the NAU student code of conduct and refer violators to the NAU student judicial system at a level consistent with other on-campus freshman housing. ACC will employ a site manager and maintenance staff. ACC and NAU will establish a Joint Advisory Committee responsible for the day-to-day operations of the housing facility, including review and approval of the annual operating budget, capital budget, staffing plan and any proposed changes in programs, policies and procedures. ACC retains ultimate control of those decisions that result in a material economic consequence to ACC, provided that minimum standards of operation have been satisfied.

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- **Sublease** - NAU will enter into a sublease with ACC for the Honors Community academic and core student support space that will be initially financed by ACC pursuant to the long term lease of this space by the University. NAU may buy out the lease at any anniversary date of the lease for the remaining unamortized portion of the sublease and the University intends to subsequently refinance and pay off the lease for the Honors Community academic and student support space through the issuance of the System Revenue bonds pending project and financing approval.

8. Occupancy Plan:

- The Honors Community will be a residence for first-year Honors students. Additionally, Honors program faculty offices and honors classrooms will be located in the academic space of the Honors Community. Current faculty offices are in the Student and Academic Services building. These offices will be relocated to Honors Community, and the offices will be backfilled by other academic faculty. The classroom space is new dedicated space.

