

EXECUTIVE SUMMARY

Item Name: Capital Development Plan (NAU)

Action Item

Requested Action: Northern Arizona University (NAU) asks the board to approve its Capital Development Plan (CDP), which includes one new project that is a third-party project. Excluding third-party projects, the CDP has no financial impact.

Background/History of Previous Board Action

- The Student Athlete High Performance Center (SAHPC) appeared as the Health Research Sports Performance and Convocation Center in last year's Capital Improvement Plan FY2020 – 2022, in the Second and Third Year Projects, submitted in September 2018.
- The project is modified to remove the convocation center and focus on the student performance aspect and is resubmitted as a first year project in this year's Capital Improvement Plan.

Prior Year Activity

- One capital project totaling \$15 million was substantially completed within the last 12 months, and one third-party project was substantially completed.
- One project totaling \$17.4 million continued construction activity in the last 12 months.
- Detail on completed and ongoing projects is listed in Exhibit 1.

Overview and Alignment with Enterprise and University Goals and Objectives

- NAU's CDP includes one third-party project.
- NAU has developed the CDP to align with the university's campus master plan, and the system Enterprise and university strategic goals and objectives.
- The primary institutional priorities supported by the CDP include:

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- **Student Success and Access:** Enhance student learning through high-quality, student-centered educational experiences; increase number of students who are retained and graduate; increase enrollment, retention and graduation of diverse students. The proposed Student Athlete High Performance Center will provide a facility competitive with other Big Sky Conference and western region peers to aid in student recruitment and retention. The SAHPC will drive student educational success and learning by providing a “one-stop-shop” for NAU student-athletes to study, train, and develop. The space will include new academic and study space, athletic training and strength and conditioning space, nutrition, altitude recovery, auditorium, and life skills space. By providing these student-athletes with a holistic facility, this will in turn help student-athletes achieve and advance the educational attainment within the state of Arizona.

- **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. 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. Utilizing a component unit of the university for financing retains the University’s debt ratio and bonding capacity for academic and other facility needs.

Capital Development Plan Projects

- The following lists the new and resubmitted projects proposed for CDP approval.

New Projects

- Student Athlete High Performance Center (Third-Party)

Previously Approved Projects

- N/A

- The Multi-Discipline Academic/Research STEM building, as presented in the Capital Improvement Plan, will be presented in an amended Capital Development Plan for Project Approval in 2020 when more information is available. The project is currently in its planning and programming stages. It’s anticipated the \$130 million dollar project will be funded with system revenue bonds, supported by the Capital Infrastructure Funds.

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

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Fiscal Impact and Management

- The NAU CDP, if fully implemented, will have no impact to the university's debt ratio as this project will be financed through an estimated \$46 million debt offering issued through a component unit, which is where the debt will reside. NAU will incur annual lease payments over a term of twenty-five years equal to the annual debt service of approximately \$2.8 million each year to be funded through student athletic fee revenue, philanthropic gifts and other university revenue. The amount of philanthropic gifts in hand and pledges, in conjunction with athletic fee revenue, will cover the anticipated lease payments for at least the initial eight years with no impact to other university resources. Additional details are identified in the Ground Lease and Lease Purchase Agreement Approval.
- **Debt Ratio Impact:** The debt service associated with the third-party project in the CDP will have no impact on the debt ratio. The project listed in the first year of the CIP will increase the debt ratio to 6.2 percent excluding SPEED projects, and 7.9 percent including SPEED projects.
- The tables in Exhibits 2 and 3 provide detail project financing, funding sources and debt ratio impact.

Statutory/Policy Requirements

- Pursuant to Arizona Board of Regents Policy Chapter 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 and planning, execute construction and financing agreements, and begin construction as outlined in policy.

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EXHIBIT 1

Northern Arizona University Capital Project Status Report							
Project Name	Square Footage	Total Budget	Percent Work Complete	Percent Total Expended *	Percent to Gift Target *	Date last Board Approval	Original / Revised Occupancy Date
Ongoing University Projects							
Science Annex 3rd/4th Floor Renovation	34,115	\$ 17,409,327	90%	81%	60%	Jan-18	Aug-19
Ongoing Third-Party Projects							
N/A							
Substantially Completed University Projects							
Recital Hall	26,863	\$ 15,000,000	99%	99%	17%	Jul-17	Jan-19
Substantially Completed Third-Party Projects							
Honors Hall	197,989	N/A	100%	N/A	N/A	Apr-17	Aug-18
*Values as of 6/30/2019							

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EXHIBIT 2

Northern Arizona University									
Capital Project Status Report									
Project	Board Approval Status	Gross Square Footage	Project Cost	Amount Financed	Funding Method	Annual Debt Service	Debt Ratio	Gift Target	Current Gifts (cash/pledges)
New Projects									
Subtotal			\$ -	\$ -					
Resubmitted Projects									
No resubmitted projects									
Subtotal									
Third Party Projects									
Student Athlete High Performance Center	CIP Sept 2019	70,000	N/A	N/A	Third-Party	N/A	N/A	\$10,000,000	\$ 2,275,000
Subtotal									
TOTAL		-	\$ -	\$ -		\$ -	0.0%	\$10,000,000	\$ 2,275,000

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EXHIBIT 3

CAPITAL DEVELOPMENT PLAN - ANNUAL DEBT SERVICE BY FUNDING SOURCE											
Project	Amount Financed	CIF	TUI	AUX	ICR	OLF	SLP	FGT	DFG	OTH	TOTAL ANNUAL DEBT SERVICE
New Projects											
No new Projects											\$ -
Subtotal	\$ -									\$ -	\$ -
Resubmitted Projects											
No resubmitted projects											
Subtotal											
Third Party Projects											
Student Athlete High Performance Center	N/A										
Subtotal											
Total	\$ -									\$ -	\$ -

OPERATION AND MAINTENANCE BY FUNDING SOURCE										
Project	TOTAL ANNUAL O&M	301	TUI	AUX	ICR	OLF	GFA	FGT	DFG	OTH
New Projects										
No new Projects										
Subtotal	\$ -						\$ -			
Resubmitted Projects										
No resubmitted projects										
Subtotal										
Third Party Projects										
Student Athlete High Performance Center	\$ 388,000					\$388,000				
Subtotal										
Total	\$ -					\$ -				

Funding Source Codes:

(CIF) Capital Infrastructure Fund

(ICR) Indirect Cost Recovery

(FGT) Federal Grant

(TUI) Tuition

(OLF) Other Local Funds

(DFG) Debt Financed by Gifts

(AUX) Auxiliary

(GFA) General Fund Appropriation (OTH) Other

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**EXHIBIT 4
 Debt Capacity Update**

PURPOSE

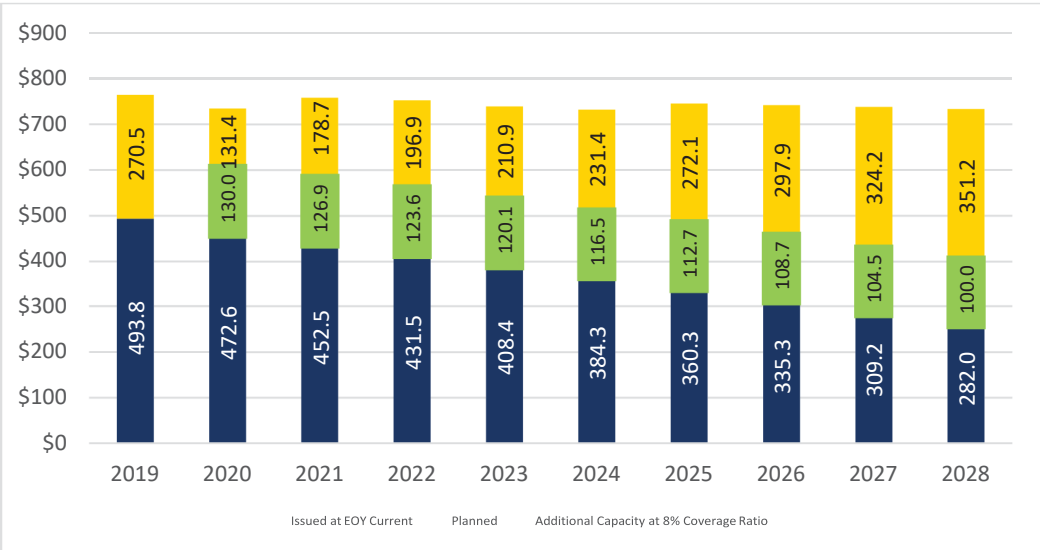
To demonstrate Northern Arizona University’s ability to finance additional capital investment through debt instruments and to fund the related debt service (principal and interest).

PROJECTED DEBT CAPACITY

<i>Maximum Projected Debt Service to Total Expenditures Excluding/Including SPEED debt</i>
6.2% / 7.9%

Currently outstanding (issued) debt at the end of FY 2019 is \$493.8 million. Anticipating that all appropriate approvals are in place, the \$130.0 million Multi-Discipline STEM Academic / Research building will be financed at the end of FY 2020 with debt service payments beginning in FY 2021. Outstanding debt in FY 2020 is projected to be \$602.6 million. The maximum projected debt ratio is 6.2 percent in FY 2021. The 6.2 percent ratio is within the range used by bond rating firms to confirm an institution’s creditworthiness and is below the 8 percent statutory debt limit. Maximum total annual debt service of \$40.9 million will occur in FY 2023 at 6.0 percent.

Currently outstanding (issued) debt declines from \$493.8 million in FY 2019 to \$282.0 million in FY 2028 as debt is retired. Outstanding planned debt includes future financings of approved, CDP and CIP projects. Additional debt capacity represents debt that can be issued in any given year based on the statutory 8 percent debt ratio maximum.



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FUTURE PROJECTS

Future debt financed projects include those approved in the FY 2020 Capital Development Plan (CDP), the first year of the FY 2021-2023 Capital Improvement Plan (CIP), and projects that will be presented for ABOR project approval. These planned projects are included in the future Debt Capacity assumptions.

	Project Budget	Amount to be Financed
Multi-Discipline STEM Academic/Research Building	\$130,000,000	\$130,000,000

CREDIT RATINGS

Positive rating factors cited by agencies include NAU's presence as a large, comprehensive university; multiple years of growth in wealth, liquidity, and enrollment; good operating reserves; and a healthy history of monthly days cash on hand.

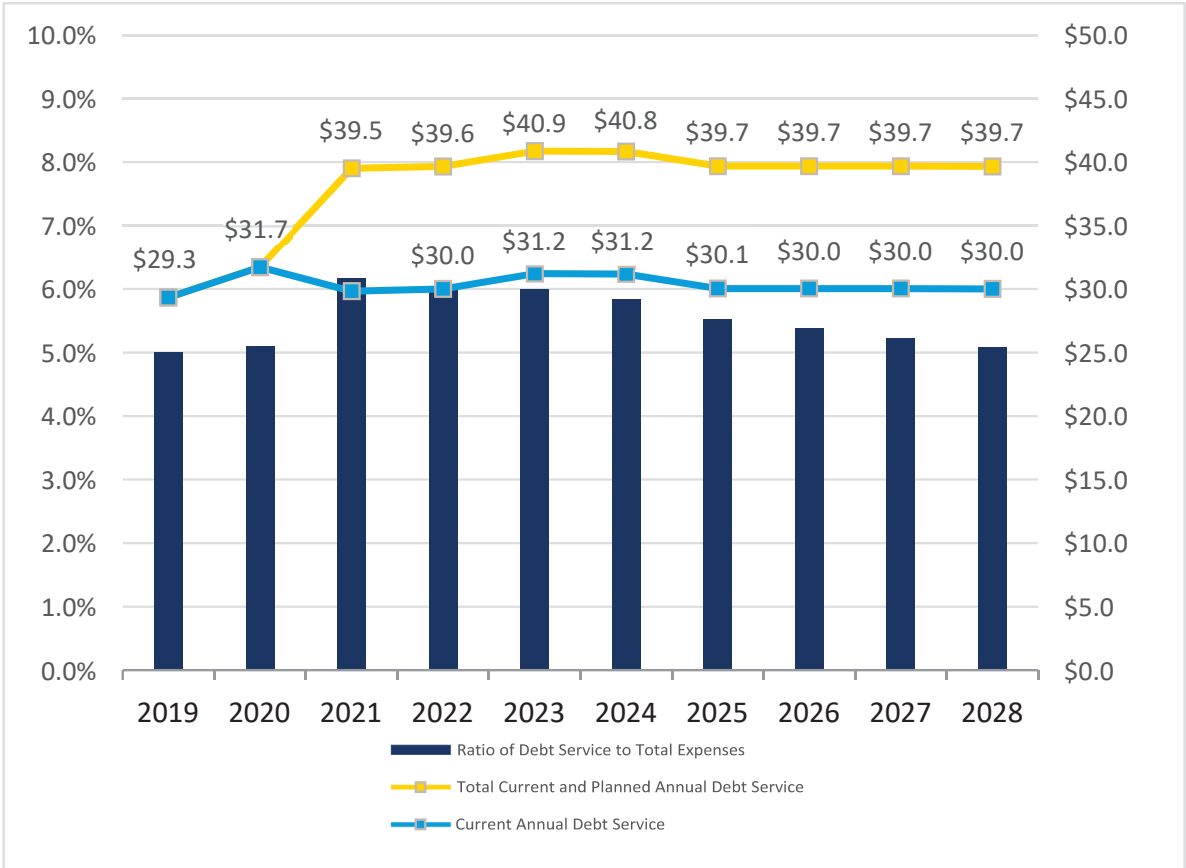
Offsetting factors include strong enrollment competition, high maximum annual debt service compared to agency medians and narrow reserves relative to debt.

Fiscal Year	Moody's		Standard & Poor's	
	Rating	Outlook	Rating	Outlook
2014	A1	Stable	A+	Stable
2015	A1	Stable	A+	Stable
2016	A1	Stable	A+	Stable
2017	A1	Stable	A+	Stable
2018	A1	Stable	A+	Stable
2019	A1	Stable	A+	Stable

RATIO OF DEBT SERVICE TOTAL EXPENSES

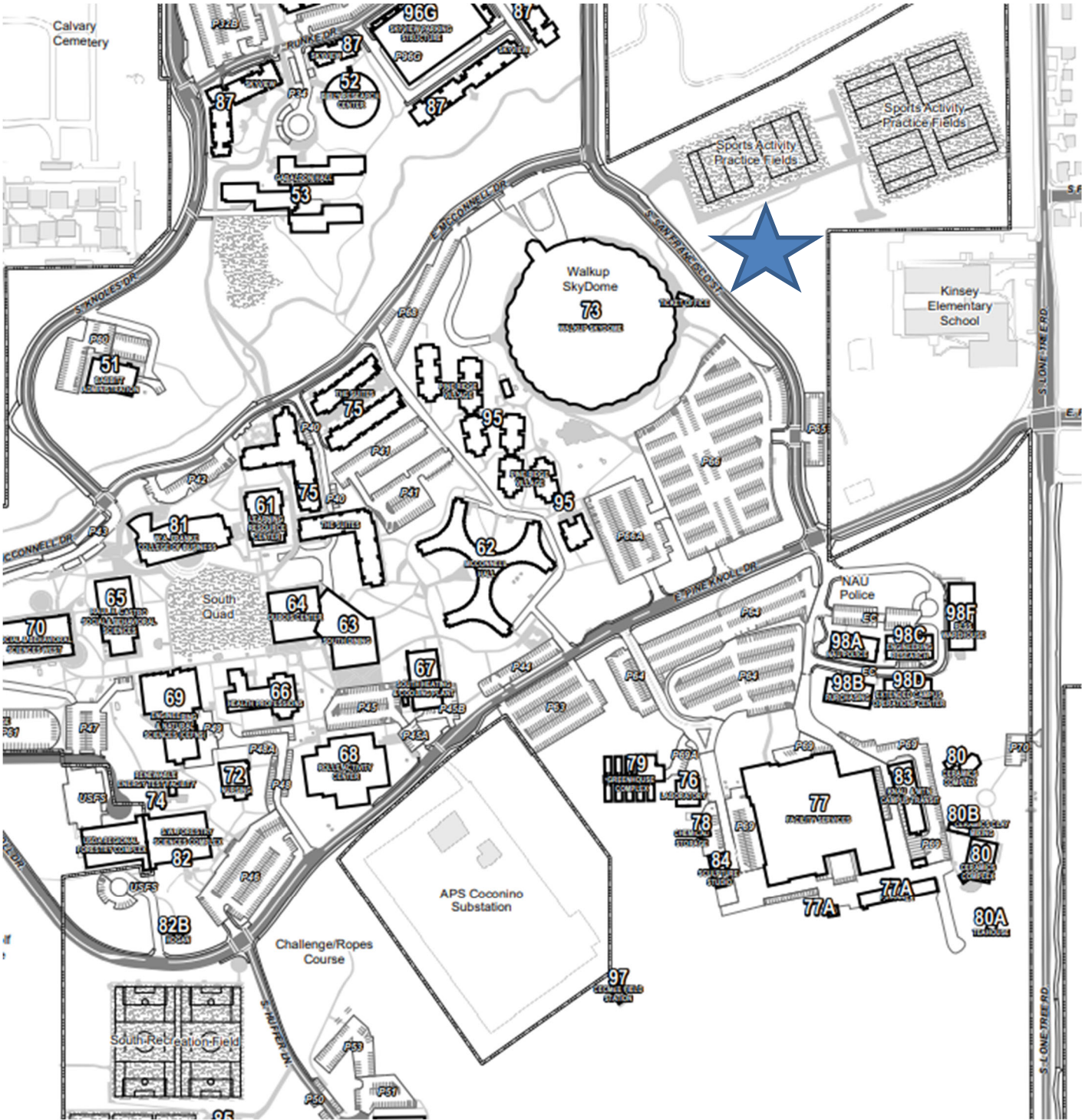
As a result of the planned project described above, annual debt service on system revenue bonds and COPs is projected to increase from \$29.3 million in FY 2019 to a maximum of \$40.9 million in FY 2023. The ratio of debt service to total expenses is expected to reach a maximum in FY 2021 at 6.2 percent. SPEED (Stimulus Plan for Economic and Educational Development) 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, but if SPEED debt service of \$11.0 million is included, the highest projected debt ratio increases to 7.9 percent in FY 2021.

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EXHIBIT 5
Project Site Map



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**Northern Arizona University
Capital Development Plan Project Justification Report
Student Athlete High Performance Center**

Previous Board Action

- FY 2021 – 2023 Capital Improvement Plan September 2019

Project Justification/Description/Scope

- The Student Athlete High Performance Center is a proposed 70,000 square foot building focusing on the wellness and development of NAU student-athletes, as well as providing educational opportunities for NAU students. The building's features will include a public welcome area including NAU Hall of Fame, practice gym, strength and conditioning, sports medicine facilities, oxygen-related altitude training and recovery, lockers / lounge, coaching offices, auditorium, nutrition station, and academic support.
- This project is located on the NAU Flagstaff campus, in an undeveloped area across San Francisco Street from the Skydome. It's adjacent the existing athletic practice fields. The exact footprint and layout of the building is to be determined.
- NAU Athletics has outgrown the athletic training center and strength and conditioning centers in the Skydome and the academic space in the Health and Learning Center (HLC). All three spaces were designed before NAU Athletics came to include 358 student-athletes. Additionally, all three spaces can barely house one team at a time, so managing the schedule of fifteen (15) intercollegiate athletic teams is problematic. Additionally, NAU Athletics has fallen behind peers in the Big Sky Conference and western region in regards to athletic performance facilities. Within the last three (3) years alone, Big Sky conference schools University of Montana, Montana State University, Portland State University, Weber State University, Southern Utah University, University of Idaho, and UC Davis, have all either constructed or announced plans to build a performance center for student-athletes with ample space and modern performance amenities. These construction projects place NAU Athletics at a distinct competitive disadvantage. The Student Athlete High Performance Center will provide a facility for NAU student-athletes to grow, train, develop, and perform at a high level, all within one building.
- This project also provides the opportunity for a contemporary and cutting-edge collaboration between Athletics and the College of Health and Human Services (CHHS). CHHS offers programs in Athletic Training, Physical Therapy,

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Fitness/Wellness, and Nutrition, which will have new opportunities to collaborate with athletics. CHHS students and faculty will work closely with Athletics staff and coaches to develop and provide high-quality training techniques and strategies that have the potential to advance our standings in the Big Sky Conference and beyond. The opportunity to exchange ideas advances opportunities to share information, ideas, and evidence-based practice, as well as offer clinical services to student athletes.

- The project will be designed in accordance with university design standards and will be constructed of high quality, maintainable materials and building systems to maximize energy efficiency and minimize operational, repair and replacement costs.

Project Delivery Method and Process

- This project will be delivered through the Construction Manager at Risk (CMAR) delivery method. This approach was selected to provide contractor pre-construction services and a high level of project team integration, which alleviates potentially adversarial project relationships.
- DLR Group was selected as the Design Professional for this project and Core Construction was selected as the CMAR for this project. Both selections followed ABOR-established procurement guidelines for selections of Professional Services and Construction Services.
- NAU will utilize a component unit to contract directly with the CMAR and the Design Professional.

Project Status and Schedule

- This project is in the design phase. Construction is scheduled to begin when all approvals are in place. Construction is targeted to begin in February 2020, with Substantial Completion by December 2021.

Project Cost

- The component unit will finance this project. The current estimated project budget is \$46.0 million.

Fiscal Impact and Financing Plan

- NAU has determined that, given its existing debt capacity and the priority of academic and research facility needs, it can best meet the project needs through

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component unit financing arrangement.

- The annual lease payment on the project is approximately \$2.8 million each year. Approval to enter into a Ground Lease will be brought to ABOR for approval in a separate Board Action Item.
- **Debt Ratio Impact:** There is no impact to the debt ratio.

Occupancy Plan

- Approximately forty staff members will move into this building from a variety of locations across campus. Currently, many of these staffs are sharing offices due to limited space for full-time staff within athletics.
- The vacated spaces may be renovated through a separate project to best utilize the spaces. Options are still being explored on how to maximize these spaces. There are several concepts under review, which include a “game day” sports medicine area for athletic events (football, basketball, track, high school sports, etc.) in the Skydome as well as conferencing space to be used by athletic and academic programs. . Renovation projects will occur as funding allows.

Statutory/Policy Requirements

- ABOR policy 7-102 (B) requires committee review and board approval of all capital projects with an estimated total project cost of \$10,000,000 or more, including information technology and third-party projects