



Subject: ATHLETIC CENTER

Committee: Budget & Finance

Date Filed: August 13, 2003

Background:

At the May 2003 Board of Regents meeting the Board approved construction of the Athletic center for an amount not to exceed \$6.5 million but required that construction on the various phases could not proceed until specifically authorized. The Board also authorized the initiation of construction when sufficient funds were available to complete the shell. The Board authorized the use a loan from the Capital Project Obligation Loan Fund of \$4.0 million. The combination bridge loan and reserve loan was contingent upon receipt of donations and firm pledges of at least \$3.0 million.

Construction has begun on the adjacent residence hall and the adjoining dining facility. At this point the contractor has mobilized, materials have been ordered and substantial grading has taken place. The most cost effective method of constructing the Athletic Center is to construct the Athletic Center at the same time as the dining facility and the residence hall. As was reported to the Board in the May meeting if authorization was not granted to begin construction by certain dates the cost of construction would increase. As of the day of the August 2003 Board of Regents meeting two critical dates will have passed.

At the May Board of Regents meeting it was reported that the construction costs through the stage of constructing the shell was estimated to be \$4.0 million if the work was initiated at the same time as the dining facility. It was also reported that approximately \$111,400 in additional costs would be assessed related if the authorization to proceed with construction is granted after September 15, but before November 30, 2003. \$70,000 if work is authorized between the Board of Regents meeting and September 15th.

Since the May Board of Regents meeting work on the dining facility and the residence hall has progressed. As the work progressed subsurface conditions were identified that have cause the foundation portion of the dining hall and residence hall project to increase in cost. At this point it appears the budget can accommodate those increased costs. These subsurface conditions have an impact on the cost of the Athletic Center as well. The foundation for the Athletic Center can not be built as designed due to the subsurface conditions. It is estimated that modifications to the design will increase the cost an additional \$150-200,000. While there is a contingency budget it would not be prudent at this time to assume that this will be the only condition that will change during the construction period. The combined additional cost for the delayed start and the subsurface conditions could increase the cost of the project by \$220,00 to \$314,400.

Gifts and donations pledges have not reach the level required by the Board of Regents to initiate construction. In order to initiate construction at this time it is necessary to revise the authorization outlined in the Board Order approved at the May 2003 Board of Regents meeting. A change in funding will require a revision to the Coordinating Board authorization for this project. The Coordinating Board has recently adopted a practice of requiring full Coordinating Board review of any intercollegiate athletic facility project. The application deadline is August 21, 2003 for the October 30-31, 2003 Coordinating Board meeting. Board of Regents action is necessary to file the revised application with the Coordinating Board.

Financial Analysis/History:

The Coordinating Board has approved the construction of an Athletic Center with 100% of the costs covered by gifts and donations. However, the percentage of costs covered by gifts and other non-student fee related income could be lowered to 25% with Coordinating Board approval.

The total project cost is estimated to be \$6,800,000 with the initial "Shell" phase of the project costing and estimated \$4,314,400. Potential funding for the "Shell" phase has been identified and is discussed below. The remaining "Finish-Out" phase (approximately \$2,500,000) of the project would be funded from sources allowed by, and in amounts required by, Coordinating Board rules, and at such time as funds are identified.

Twenty-five percent of a \$4,314,400 project would be \$1,078,600. The remaining \$3,235,800 (75%) could come from other institutional funds, including unexpended project funds.

Regarding the \$3,235,800 (75%):

To fund the \$3,235,800, the System Facilities and Planning Office has stated that there will be a minimum of \$1.8 million left over in the construction account for the Student Recreation Sports facility after all costs and encumbrances are paid. In addition, another \$600,000 in interest earnings related to the construction account is also available. Therefore, no less than \$2,400,000 in unexpended project funds could be made available toward the construction of an Athletic Center. The Board Order for this item gives the appropriate authorization to use these project funds for an Athletic Center contingent upon Coordinating Board approval.

In addition, should the Board of Regents and the Coordinating Board approve a 75-25 split and the use of unspent project funds, the University would then have the option of using other institutional reserves and/or auxiliary income for the remaining \$835,000 needed to meet the \$3,235,800 non-gift funded portion of the project.

Regarding the \$1,078,600 (25%):

Currently the University has sufficient pledges to cover the \$1,078,600 needed for the gift portion of the project. Most of these pledges would be paid over a five-year period. Therefore, the University would have to receive permission from the Coordinating Board to use the University's Capital Project Obligation Loan Fund to cover the necessary portion of the project. The loan fund would be repaid as the pledges are paid off.

Vice Chancellor for Finance

Legal Review:

Vice Chancellor/General Counsel

Schedule:

Recommendation:

It is recommended that the Board of Regents authorizes and approves the following:

1. The Unspent and Unencumbered Proceeds remaining from the issuance of the Series 2001 Bonds may be spent on the Athletic Center subject to approval from the Texas Higher Education Coordinating Board; and
2. The University may use institutional reserves and/or auxiliary income to achieve the 75% portion of project costs; and
3. The University may use up to \$1,078,600 from the University Capital Project Obligation Loan Fund, to be repaid from pledges of gift funds.

Recommended By Vice Chancellor
for Administrative Affairs

President

Chancellor

Date

Date

Date