University Housing, Dining
& Conference Services
UNIVERSITY of ALASKA ANCHORAGE

UAA Housing Acquisition & Debt Restructure
August 18, 2014

Introduction:

The mission of University Housing (Housing) is to provide students with clean, comfortable, safe, and affordable housing that supports their academic success. Housing provides a living space that supports students' academic and personal growth and is fundamentally integrated into many aspects of Shaping Alaska's Future. In summer 2014, UAA's Prioritization Support Task Force determined Housing was a top-tier priority for the future of UAA; one of only 37 functions within UAA to be denoted as "Priority for Higher Investment."

UAA Housing is operated by Business Services, along with Dining and Conference Services (UHDCS). This model is different from the Fairbanks and Juneau campuses, where Student Affairs operates Housing along with the Residence Life program.

As an auxiliary operation of the university, Housing receives no General Funds to assist with expenses. Revenues from bed rates, meal plans, and summer conferencing pay all expenses.

<u>The breakdown of bed space in Housing is as follows:</u>

West, East, and North Halls	558 (186 each)
Main Apartment Complex (MAC)	308 (14 designated for the WWAMI program)
Templewood Condominiums	80

Built in the mid-1980s, both the Main Apartment Complex (MAC), and the Templewood condominiums, have no current debt. The Commons and the three residence halls were built in 1997 using a $30M low interest loan from the Alaska Housing and Finance Corporation ("AHFC"). UAA Housing began repaying its original $30M debt to AHFC in August 1999. Housing has paid off over $17M of loan principal, during the last 14 years.

Growth Opportunity:

A high-end condominium complex containing 4 units ("Condos") located on property (see red outline) adjacent to the UAA's main Anchorage campus has become available for purchase. These Condos could be used to house faculty members, administrators, graduate students, visiting scholars, or researchers. The Condos acquisition price would be $1.6M, which is approximately $28,000 below their combined appraised value. It is a rarity to be able to purchase all of the units in condominium complex at one time, particularly one of only two complexes that are strategically located along one of the main gateways to UAA. The purchase of these units provides Housing with additional units to meet the unmet demand for graduate, faculty, and scholar housing; additional revenue; and would allow UAA to positively impact one of its gateway entrances, by maintaining the upkeep of the Condos in the coming years and not allow them to slip into disrepair.

Funding Option:

At an informal meeting with AHFC, UA Facilities and Land Management, and Housing on June 27, 2014, AHFC loan officers described an opportunity for Housing to restructure its current AHFC debt, whereby UAA would receive additional loan proceeds to provide four high-end units, improve operations and protect existing assets. The crucial element to this financing option is AHFC's inclination to leave the current annual debt service payment unchanged. Most loans have four interconnected components; Loan Amount, Amortization Schedule, Debt Service Amount, and Interest Rate. A change to any of these components will cause the other components to adjust per a precise mathematical formula. A lender can choose to hold any of the components constant, which will cause the other components to change accordingly. AHFC proposed a restructure that would keep the current annual debt service the same, but would increase the loan amount, lengthen the amortization period of the loan and adjust the interest rate to a "blended" rate. The blended interest rate would maintain the existing low interest rate on the remaining $13M of the original principal, but any borrowed "new" money would be priced by AHFC (interest rate %) at the current market.

Short-Term and Long-Term Benefits of Restructuring AHFC Debt:

AHFC has expressed a willingness to provide more than the $1.65M needed to purchase the Condos. Indeed, an increase of up to $7M in additional loan proceeds for UAA housing needs was favorably discussed during the June meeting. For all intents and purposes, this restructure would provide Housing with up to $7M, without the additional burdens (increased debt service payments) that a traditional University financing solution (working capital loan or bond issue) would impose.

If UAA restructured its AHFC loan for the full $7M offered, it would use $1.65M for the purchase of the Condos and use the remaining $5.4M to address critical Housing reinvestment needs. This would breathe new life into the residence halls, lower operating expenses, increase revenue and grow Housing's capital reinvestment reserves.

Despite sound structural integrity, most areas of the residential buildings have not been renewed or renovated in almost 20 years. Interior spaces throughout the 100 apartments on campus are degraded and in most cases the carpet, interior and exterior painting, lighting, and appliances are older than the residents themselves. Throughout the residential zone of the UAA campus, lighting fixtures are the original, low-efficiency fluorescent style with high annual costs and short bulb lifespan.

<u>Potential facilities upgrades include:</u>

- energy efficient lighting & switches
- apartment kitchen and bathroom remodeling
- interior and exterior painting
- new furnishings
- residence hall lobby and lounge remodeling

The operational benefits that would result from a refurbishment program include but are not limited to:

- M&R costs would decrease an estimated 15 percent (about $75,000 per year), given reduced demand for contracted repairs of deteriorating carpet, lighting, bathrooms, and kitchens;
- Electric utilities costs would decrease an estimated 20 percent (about $80,000), by upgrading to LED lighting and automated switches throughout the residential zone;
- Significant renovations would allow UAA to offer better accommodations to students, raise room rates slightly (5%) and continue to be a great value for students. The Office of Financial Assistance concludes that UAA Housing offers students room and board for 14.8% less than comparable off-campus accommodations. The increased room rates could generate an increase of as much as a $500,000 annually.
- Improved cash flow will allow UAA Housing to double its annual R&R savings ($157,000 in FY 12, FY13, and FY14; to $300,000 annually)
- Housing maintenance and operations staff can focus on preventative maintenance rather than the backlog of deferred maintenance issues they now face.

The projections above plus the approximately $100,000 in cash flow from the newly acquired Condos would result in an increased bottom line of approximately $900,000, thus tripling Housing's annual uncommitted revenue. This can all be accomplished through an AHFC loan restructure that results in low transaction costs, quick closing date, minimum University staff time to originate loan, no increase in Housing's debt service obligation, and little or no Negative Arbitrage as the refurbishments would happen over a 3 – 4 year time frame, delaying the drawn down of the loan and thus the interest carry cost.

Negative Arbitrage is the loss of interest caused by having to draw the full amount of a bond financing and then redeposit the bond funds in a safe interest bearing account, until they are required at a later date. Because borrowing rates are typically higher than deposit rates, the deposited funds earn a negative spread, which is the difference in interest earned on the deposited funds versus the interest paid on the borrowed money.

AHFC Loan Modifications

Current Loan Conditions	*Actual*	Modified Loan Conditions	*Estimated*
Principal Amount:	$13 million	Principal Amount:	$20million
Amortization Schedule:	25 years	Amortization Schedule:	32
Interest Rate:	1.826%	Blended Interest Rate:	2.5% - 3.5%
Annual Debt Service:	$1.5 million	Annual Debt Service:	$1.5 million
Loan Payoff Date	2024	Loan Payoff Date	2031

Action Needed

UAA is requesting Board of Regent Authorization for the following:

1. Authorization to purchase the 4 Condos located at 2831 UAA Drive, Units A – D for $1.6M
2. Authorization for the Administration to fund the initial Condo closing with a Working Capital Loan of up to $1.65M
3. Authorization to borrow an additional $1.65M from the Alaska Housing and Finance Corporation ("AHFC") for the specific use of paying back the Working Capital Loan and placing a AHFC mortgage on the Condo property
4. Authorization to borrow an additional $5.4M from AHFC for the specific use of refurbishing existing UAA housing stock. (AHFC mortgage already in place)