

ARKANSAS HIGHER EDUCATION COORDINATING BOARD SPECIAL MEETING

**Wednesday, September 11, 2020
10:00 a.m.**

Via Zoom

AGENDA

- *1. Economic Feasibility of Loan Issue for the University of Arkansas, Fayetteville
(Mr. Nick Fuller)
- *2. Recommendations for State Funding of Capital Projects for the 2021-23 Biennium
(Mr. Fuller)

**ECONOMIC FEASIBILITY OF LOAN ISSUE
UNIVERSITY OF ARKANSAS, FAYETTEVILLE**

The University of Arkansas, Fayetteville (UAF) requests approval of the economic feasibility of plans to secure a loan up to \$19.1 million with a term of eight (8) years at an annual interest rate not to exceed 2.0 percent. Proceeds from the loan will be used for Athletic auxiliary purposes. The University of Arkansas Board of Trustees approved this financing at its meeting on September 8, 2020.

The auxiliary issue will be approximately \$19.1 million with an annual debt service of approximately \$3,983,031 and a term of eight (8) years. Proceeds from the loan will be used for the Athletic Department to pay for and/or refund a portion of debt service costs for multiple series of bonds benefitting the University of Arkansas, Fayetteville Department of Athletics for the amounts due in 2020 and 2021. The debt service on the loan issue will be supported by Athletics auxiliary revenues. Coordinating Board policy regarding debt service provides that annual net auxiliary revenue should be no less than 120 percent of the estimated total annual debt service.

Relevant data follows:

Budgeted 2020-21 Athletic Auxiliary Revenue	\$ 124,567,250
Current Forecasted 2020-21 Athletic Auxiliary Revenue.....	<u>\$ 104,567,250</u>
Maximum Allowable Debt Service (\$104,567,250 / 120%)...	\$ 87,139,375
Existing Debt Service	\$ 15,406,423
Proposed New Debt Service	\$ 3,983,031
Amount Remaining for Additional Debt Service	\$ 67,749,921

The above data demonstrates that the University of Arkansas, Fayetteville has sufficient revenue to support an Athletic auxiliary loan issue of approximately \$19.1 million with a term of eight (8) years at an estimated annual interest rate not to exceed 2.0 percent.

In accordance with board policy, any proceeds from bonds that require AHECB approval, which are used for the purchase or construction of new facilities, and result in additional square footage are subject to the AHECB maintenance policy as adopted in October, 2010. The above project does not provide additional square footage.

ADHE Executive Staff recommends that the Arkansas Higher Education Coordinating Board approve the following resolution:

RESOLVED, That the Arkansas Higher Education Coordinating Board considers economically feasible plans for the University of Arkansas, Fayetteville to secure a loan up to exceed \$19.1 million with a term of eight (8) years at an estimated interest rate not to exceed 2.0 percent for the Athletic Department to pay for and/or refund a portion of debt service costs for multiple series of bonds benefitting the University of Arkansas.

FURTHER RESOLVED, That the Director of the Arkansas Division of Higher Education is authorized to notify the President and the Chair of the Board of Trustees of University of Arkansas and the Chancellor of the University of Arkansas, Fayetteville of the Coordinating Board's resolution.

RECOMMENDATIONS FOR STATE FUNDING OF CAPITAL PROJECTS 2021-23 BIENNIUM

Capital Priorities

Capital priorities for Development and Enhancement Fund projects in 2021-23 remain the same as those established in past biennia by the Arkansas Higher Education Coordinating Board (AHECB). Those priorities are as follows:

- Technology infrastructure improvements including: installations or upgrades of local area networks (LANS), campus infrastructure to support increased bandwidth, and instructional technology equipment for classrooms and laboratories, as well as distance learning delivery systems.
- Critical maintenance projects where critical needs are defined as those which must be addressed before the end of 2023 and which, if neglected, could result in substantial damage to the structural integrity of the building, or are related to the imminent failure of building systems such as HVAC, electrical and plumbing. In addition, critical maintenance projects include those associated with ADA compliance and/or safety needs.
- Improvements in research, instructional and clinical equipment as well as library holdings and technology.
- Renovation of existing facilities to address changing program needs.
- New construction of facilities when renovation of an existing building to meet the need is either not cost effective or is not an option, e.g., new space to address enrollment growth.

In light of these priorities, institutions have responded with capital needs for the 2021-23 biennium. ADHE staff have evaluated the requests and have recommended capital projects that meet the strategic needs of higher education through 2023.

Capital 2021-23 Recommendations

Arkansas higher education now has a current replacement value for its educational and general (E&G) space of over \$5.5 billion. When this information is coupled with the fact that approximately 50 percent of the useful life of campus facilities statewide has been expended, it is not surprising that the capital request for higher education is significant.

Construction, Renovation and Technology Infrastructure Projects

Institutions requested approximately \$1.05 billion in capital construction/renovation and technology infrastructure projects. Recommendations were made on the basis of the following criteria and institutions' demonstrating a compelling need for the projects.

- Institutional need for additional E&G square footage
- Condition of facilities (facilities condition index factor, critical maintenance needs)
- Age of facilities
- Debt service (capacity and utilization)
- Enrollment
- SREB category of the institution

Of the \$162.24 million recommended, \$78.52 million (48.4 percent) is for four-year institutions; \$59.44 million (36.6 percent) for two-year institutions; \$19.78 million (12.2 percent) for non-formula entities; and \$4.5 million (2.8 percent) for technical centers.

Four-year institutions represent 53.1 percent of total higher education facilities assets, while the two-year institutions and non-formula entities have 24.2 percent and 21.9 percent of the total assets, respectively. Technical centers represent approximately 0.8 percent of the total assets. The project need and recommendation for each institution can be found on Table 2-A.

Critical Maintenance

Educational and General Critical Maintenance needs for all institutions total \$259.8 million. Critical needs are defined as those which must be addressed before the end of 2023 and which, if neglected, could result in substantial damage to the structural integrity of the building, or are related to the imminent failure of building systems such as HVAC, electrical and plumbing. The four-year institutions have a critical maintenance need of \$169.2 million (65.1 percent); the two-year critical maintenance need is \$18.8 million (7.2 percent); and the non-formula and technical center critical maintenance needs are \$71.6 million (27.6 percent) and \$0.2 million (0.1 percent), respectively.

Recommendations are based on ten percent of the institution's total critical maintenance need. The total critical maintenance need and recommendation for each institution can be found on Table 2-A.

Staff recommends approximately \$25.98 million for critical maintenance needs.

Deferred Maintenance

Educational and General Maintenance needs for all institutions total \$2.95 billion. The four-year institutions have a maintenance need of \$1.76 billion (59.6 percent); the two-year maintenance need is \$510.6 million (17.3 percent); and the non-formula and technical center maintenance needs are \$659.4 million (22.3 percent) and \$23.7 million (0.8 percent), respectively.

Recommendations are based on two percent of the institution’s total deferred maintenance need. The total deferred maintenance need and recommendation for each institution can be found on Table 2-A.

Staff recommends approximately \$59.1 million for deferred maintenance needs.

Equipment and Library

Staff recommends approximately \$22.2 million for equipment and library needs. This recommendation is based on \$150/weighted FTE for the four-year, two-year and technical institutions.

Summary

The capital recommendation is significant given the projected revenues to support the projects; however, these recommendations reflect the continuing need to maintain the state’s investment in higher education facilities and keep pace with the technological advances that are necessary for cutting edge academic programs. Project categories and recommendations are summarized as follows:

<u>Project Category</u>	<u>Recommendations</u>
Renovation, Construction and Technology Infrastructure	\$162,235,500
Critical Maintenance	25,980,000
Deferred Maintenance	59,120,000
Equipment and Library	22,151,113
 GRAND TOTAL	 \$269,486,613

ADHE Executive Staff recommend that the Arkansas Higher Education Coordinating Board approve the following resolution:

RESOLVED, That the Arkansas Higher Education Coordinating Board adopts the staff recommendations for state funding of capital projects totaling \$269.5 million as identified in the accompanying agenda materials.

FURTHER RESOLVED, That the Director is authorized to transmit to the Governor and the General Assembly the Board's recommendation for state funding.

FURTHER RESOLVED, That the Director is authorized to make such technical adjustments to these recommendations as may be required.