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# CAPITAL PROJECTS FOR THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION

December 2016



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Prepared by  
The University of Texas System  
Office of the Controller

Report to the Legislative Budget Board and Governor  
Pursuant to Rider No. 5 to The University of Texas System Administration  
HB 1, 84th Legislature, Regular Session, Page III-61



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**RIDER NO. 5 TO THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION**

The text of Rider No. 5 to The University of Texas System Administration in House Bill 1, 84<sup>th</sup> Legislature, Regular Session, is as follows:

**“Reporting Requirements for Capital Projects for The University of Texas System Administration.**

By December 1 of each year, The University of Texas System shall submit a report to the Legislative Budget Board for the prior fiscal year that includes information on all capital construction projects paid for with funds appropriated by this Act, having a cost in excess of \$1,000,000 and having the purpose of directly supporting the administration and operation of The University of Texas System Administration or the Board of Regents of The University of Texas System. The report must include at a minimum for each capital project: (1) the purpose of the project; (2) the total cost of the project; (3) the source of funding for the project; (4) the savings achieved by the project; and (5) any other information requested by the Legislative Budget Board.”

**THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION****CAPITAL EXPENDITURE POLICY**

The University of Texas System *Capital Expenditure Policy* (UTS 168) provides institutions guidance in the capital expenditure process, from Project approval to Project closure. It also provides U. T. System Administration a uniform method for documenting the full capital expenditure lifecycle in order for the capital expenditure activity to be effectively communicated to the Board of Regents.

U. T. System Board of Regents' *Rules and Regulations*, Rule 80301 requires that U. T. System Administration maintain a Capital Improvement Program (CIP) on an ongoing basis. Although the CIP is a dynamic document subject to change throughout the year, a report detailing the current status of the CIP is expected to be formally presented to the Board of Regents at least one time per year.

The CIP consists of a six-year projection of major new construction and repair and rehabilitation projects to be implemented and funded from institutions and System wide revenue sources. The CIP is a current reflection of the institutions' continuous process of strategic planning and master planning for institutional program.

**CAPITAL PROJECT REPORTING**

Institutions include a schedule in their Annual Financial Report (Schedule S-8: Changes in Fund Balance for Unexpended Plant Fund) that reflects activity during the fiscal year for all unexpended plant projects by funding source. While U. T. System Administration did not have any capital construction project activity funded with appropriated funds in excess of \$1,000,000 in fiscal year 2016, this report includes information for the U. T. System Administration Building, referred to in the CIP, internally and in this report as the Replacement Office Building.

**REPLACEMENT OFFICE BUILDING****PURPOSE**

A work group was formed in May 2010 at the request of the Chancellor and U. T. System Board of Regents Vice Chairman Steve Hicks to determine the cost and benefits of either remaining in the current U. T. System Administration complex or moving elsewhere. The existing complex in downtown Austin included five relatively small buildings that range in age from 40 to 131 years. The age and fragmented nature of the buildings lends itself to an inefficient layout in addition to significant financial costs for operation, repair, replacements and renovations.

At the November 2011 U. T. System Board of Regents meeting, five options for alternatives to the U. T. System Administration complex, gleaned from over a dozen alternatives, were presented. The U. T. System Board of Regents directed the space planning work group to continue its studies, with the goal of finding the optimal site for consolidating the existing complex into one building in or close to the downtown area.

The work group proceeded to evaluate the five most viable options in greater detail, to determine and confirm their value and suitability. Simultaneously, the work group conducted internal pre-programming work, including departmental interviews, to confirm and refine the U. T. System requirements.

The work group developed the following requirements for a replacement facility:

- Design for current and anticipated U. T. System Administration Staff with flexibility for changes in programs and mission
- Use of space planning standards for greater space use efficiencies and fungible spaces
- Inclusion of a U. T. System Board of Regents meeting room and a more efficient mix of conference rooms
- Sufficient on-site parking to include adequate visitor parking
- Healthy workplace features, such as an employee exercise room, thoughtful work-break spaces, abundant natural light, and limited beneficial retail space.

Based upon the additional studies following the November 2011 U. T. System Board of Regents meeting, the work group's recommendation was that the U. T. System Administration construct a new single replacement building, consisting of nine office levels, six above ground parking levels, and one below ground parking/receiving level on owned land north of Seventh Street between Lavaca and Colorado Streets, to house U. T. System Administration. The Replacement Office Building will meet all of the requirements that the work group identified as important to U. T. System, and the location will continue the U. T. System presence

downtown, which provides the best proximity to U. T. Austin, the Texas Capitol, connectivity and access for employees and visitors, and off-site amenities. The Replacement Office Building will be sufficiently large to accommodate potential future U. T. System Administration growth and/or third party office and retail occupants. The remaining U. T. System property south of Seventh Street may be leased to one or more third parties when vacated.

On February 21, 2014 the Office of Facilities Planning and Construction received authorization to proceed with the project. Request for Qualifications and Request for Proposals were initiated to select the Architect Prime and Construction Manager at Risk for the Project. Construction of the replacement building began in early 2015. Construction is expected to be completed in July 2017 and U. T. System staff will transition into the new building later that summer.

### **PROJECT FINANCIAL METRICS**

Financial analysis was completed assuming a 33 year cash flow, calculated based on costs from today through completion of construction plus the length of time to retire 30 year bonds. The analysis considered all costs of remaining in the System Complex and all costs of occupancy and furnishing of the Replacement Office Building, when with the temporary relocation for some employees during construction followed by moving all U. T. System Administration employees to the Replacement Office Building upon its completion.

Revenue generated from the proposed retail and other commercial space in the replacement building, as well as from the sale of O. Henry Hall and the redevelopment of the property that today is the site of Ashbel Smith Hall and the Claudia Taylor Johnson Building ("Block 71") will mostly offset the new facility's debt service costs, and additional savings from operational efficiencies and cost avoidance on long-term maintenance of existing buildings are expected.

The U. T. System Board of Regents in the November 2016 board meeting were briefed on the plans for redevelopment of Block 71 and authorized a ground lease for commercial use. Block 71, located between West 6<sup>th</sup> and West 7<sup>th</sup> streets on the south and north and Colorado and Lavaca streets on the east and west side is expected to be leased for redevelopment. Contract negotiations are continuing and specific details of the planned redevelopment of the site and the financial aspects of the potential ground lease are not available at this time.

The anticipated total project cost of \$133.1 million, including design, construction and furnishing, would be financed with Revenue Finance System Bond proceeds to be repaid from anticipated lease income, Available University Fund (AUF) and other sources. The project estimated total cost per gross square foot of building space (excluding parking garage GSF) is \$389. The cost for the office space portion alone (excluding parking garage and demolition costs) is \$287 per square foot, which compares favorably to other office projects built at U. T. institutions.

	PROPOSED BUILDING	STATUS QUO	SAVINGS
<b>Annual Cost Projection (33 Year Average)</b>	\$ 5 – 7 million	\$9 – 11 million	\$2 – 6 million
<b>Net Present Value of Cost over 33 year</b>	\$90 – 120 million	\$150 – 180 million	\$30 – 90 million

Additional information can be found at: <https://www.utsystem.edu/sites/new-building>

# Appendix

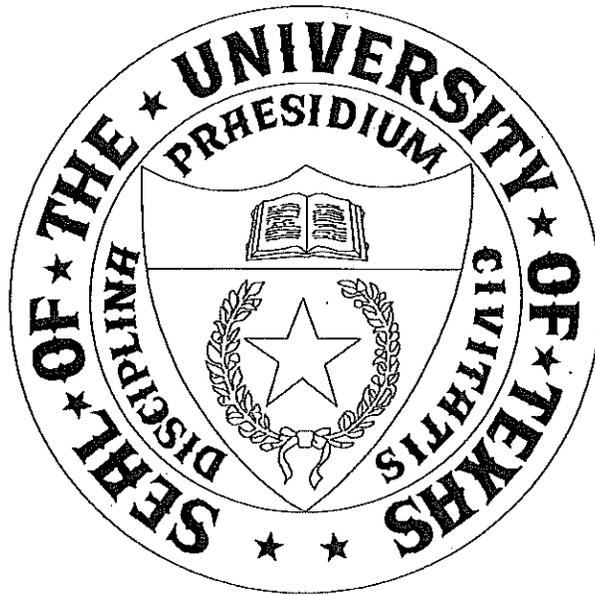
Business Plan for the

U. T. System Administration Replacement Office Building

**BUSINESS PLAN  
FOR**

***U. T. System Administration Replacement Office Building***

Design Development Approval



**Submitted By**  
***The University of Texas System Administration***

***August 21, 2014***

The following *University of Texas System Administration* administrators have reviewed and approved this Business Plan.

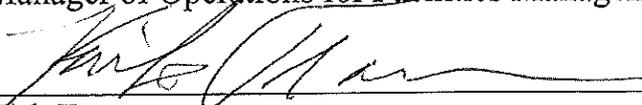
  
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## EXECUTIVE SUMMARY

A work group was formed in May 2010 at the request of the Chancellor and Vice Chairman Hicks, to determine the cost and benefits of either remaining in the current University of Texas System Administration (UTS) complex or moving elsewhere. The existing downtown complex includes five relatively small buildings that range in age from 40 to 131 years. The age and fragmented nature of the buildings lends itself to an inefficient layout in addition to significant ongoing financial costs for operation, repair, replacements and renovation.

At the November 2011 Board of Regents (BOR) meeting, five options for alternatives to the UTS Complex, gleaned from over a dozen alternatives, were presented to the BOR. The BOR directed the space planning work group to continue their studies, with the goal of finding the optimal site for consolidating the UTS five building downtown complex into one building in or close to the downtown area.

The work group proceeded to evaluate the five most viable options in greater detail, to determine and confirm their value and suitability. Simultaneously, the work group conducted internal pre-programming work, including departmental interviews, to confirm and refine UTS requirements.

The work group developed the following requirements for a replacement facility:

- Design for UTS Administration Staff with flexibility for changes in programs and mission
- Use of space planning standards for greater space use efficiencies and fungible spaces
- Inclusion of a Regents Board meeting room and a more efficient mix of conference rooms
- Sufficient on-site parking to include adequate visitor parking
- Healthy workplace features, such as an employee exercise room, thoughtful work-break spaces, abundant natural light, and limited beneficial retail space

Based upon the additional studies following the November 2011 BOR meeting, the work group's recommendation was that the UTS construct a new single replacement building, consisting of nine office levels, six above ground parking levels, and one below ground parking/receiving level on UTS-owned land north of Seventh Street between Lavaca and Colorado Streets to house UT System Administration. The replacement building will meet all of the requirements that the work group identified as important to UTS and the location will continue the UTS presence downtown, which provides the best proximity to U. T. Austin, the Texas Capitol, connectivity and access for employees and visitors, and off-site amenities. The replacement building will be sufficiently large to accommodate potential future UTS Administration growth and/or third party office and retail occupants. The remaining UTS property south of Seventh Street may be leased to one or more third parties when vacated.

On February 21, 2014 the Office of Facilities Planning and Construction received authorization to proceed with the project. Request for Qualifications and Request for Proposals were initiated to select the Architect Prime and Construction Manager at Risk for the Project.

A Program Validation was conducted resulting in the revision of project scope as follows:  
The replacement building's approximate configuration includes the following:

- 342,200 Gross Square Feet (GSF) total, composed of:
  - 206,000 GSF of office, support, Board Room, and public space for immediate use by UTS
  - 35,100 GSF of office space for lease, but available over time for UTS needs
  - 31,000 GSF to be leased to an office tenant under a long-term lease
  - 8,000 GSF for ground-level retail use
  - 68,300 GSF for shared building core
- At full capacity, the facility could seat up to 1086 FTE's for a ratio of 315 GSF/FTE. (The current downtown complex reasonably provides 525 seats in 226,000 GSF, or about 430 GSF/FTE).
- A parking garage to accommodate between 750 and 760 parking spaces, including about a dozen designated for visitor use

### Key Project Milestones

Board of Regents Approval to Place on CIP	November 2012
Design Development (DD) Approval by BOR	August 21, 2014
Staff Relocation from Colorado and Lavaca Buildings	August 14, 2014
Begin Demolition of Colorado and Lavaca Buildings	August 18, 2014
Begin New Building Construction	November 17, 2014
Replacement Building Final Completion	Early 2017
Building Occupied	Early 2017

### Project Financial Metrics

Financial analysis was completed assuming a 33-year cash flow, calculated based on costs from today through completion of construction plus the length of time to retire 30-year bonds. The analysis considered all costs of occupancy, furnishings and relocation for some employees during construction of a replacement building, followed by moving all UTS employees to the replacement building upon its completion. The analysis assumed relocating some UTS staff temporarily during the construction period followed by a full relocation of all UTS staff to the replacement building when completed. The analysis further assumed that unused portions of the replacement building would be available for commercial, retail, and third party office tenants, with associated lease costs and income.

The anticipated total project cost of \$133.1 million, including design, construction, and furnishings, would be financed with Revenue Finance System Bond proceeds to be repaid from anticipated lease income, AUF, and other sources. The project's estimated total cost per gross square foot of building space (excluding parking garage GSF) is \$389. The cost for the office spaces portion alone (excluding parking garage and demolition costs) is \$287 per square foot, which compares favorably to other office projects built at U. T. institutions.

	PROPOSED BUILDING	STATUS QUO	SAVINGS
Annual Cost Projection (33-Year Average)	\$5 – 7 million	\$9 – 11 million	\$2 – 6 million
NPV of Cost over 33 Years	\$90 – 120 million	\$150 – 180 million	\$30 – 90 million

## PROJECT DESCRIPTION

### Background

In keeping with UTS's ongoing efforts to operate more efficiently, a comprehensive study was completed of the operating costs for the current downtown location. The study concluded that, while the facilities are being operated as efficiently as possible, the age and wear of the existing five buildings and their inefficient layouts make the current campus significantly more expensive to operate and maintain than would a single, modern facility.

The work group reported these findings to the BOR in executive session in September 2011 and the BOR responded with direction to report back with a single recommended site/shell building location, basic scope description, conceptual cost estimate, and conceptual schedule. This business plan supports such a recommendation.

### Existing Complex

The current UTS downtown complex consists of five buildings that range in age from 40 to 131 years and aggregate to approximately 226,000 IGSF. The complex includes five parking garages and shared chiller systems. Located on over 1 ½ contiguous city blocks in downtown Austin, the facilities can accommodate approximately 497 employees without significant renovations, and up to 525 staff with the build out of the Colorado Building 5<sup>th</sup> Floor shell space, although at this level daily overflow parking would be expected. To accommodate future growth beyond 525 employees, UTS would have to lease office space and parking spaces off-site.

One of the most pressing concerns of the downtown complex is the age of the buildings and the financial burden of annual maintenance, replacements and facility operating costs. UTS spends a considerable amount on maintenance, repair, replacement, capital improvements, and operation costs. For example, in the upcoming two years, the Ashbel Smith building will require several necessary replacements including new air handlers, a new roof, and boiler repairs. The Regent's plaza at the corner of 6<sup>th</sup> Street and Colorado will require waterproofing renewal and Parking Garage 1 will require structural beam repairs. These necessary replacements and other deferred maintenance will cost more than \$6 million in the near term, in addition to the daily maintenance and operating expenses of the five building complex. Furthermore, given the five building complex, employees' effectiveness and efficiency is reduced compared to what a single building could provide with greater adjacencies and potential for collaboration.

The downtown complex's relatively inefficient use of space is an issue inherent in complexes with multiple small facilities, each requiring separate and independent circulation, mechanical and other support space. Furthermore, space use in the complex is inefficient due to the layout of the assignable spaces, which are often configured for the use of traditional office furniture and/or are inflexible due to limitations of the building shape or the layout of structural elements.

### **Replacement Building Study**

Following the September 2011 BOR meeting, the work group proceeded to evaluate the five most viable UTS options in greater detail, to determine and confirm their value and suitability. Simultaneously, the work group conducted internal pre-programming work, including departmental interviews, to confirm and refine UTS requirements.

Pre-programming included sixteen in-depth departmental interviews across UTS to discover current and future space needs, including ideal adjacencies of internal departments. It became clear in these interviews that UTS could be more efficient in its business practices if consolidated into a single building. A single facility provides the benefits of: departmental adjacencies, centralized support spaces, centralized meeting/conference spaces, centralized break areas, and a single main entry, all of which improve staff efficiency, enhances staff interaction including chance encounters, and promotes a sense of community. A more efficient building and working space would also serve as a symbolic and practical reflection of UTS's commitment to the State of Texas.

### **Recommendation: Build Single Office Building Downtown on UTS property North of Seventh Street**

The work group recommends constructing a single replacement building facility on UTS-owned land north of Seventh Street between Lavaca and Colorado Streets. This location currently contains the Colorado & Lavaca Buildings as well as a small parking garage, all of which would be demolished under the proposed plan. This location would provide for large, efficient floor plates, continued superior access to the Texas Capitol and U. T. Austin, as well as make available valuable land south of 7th Street for long term lease, thus providing an attractive and steady source of rental income. The location within the established office core of the Austin central business district will also facilitate the leasing of space in excess of System's immediate needs in the replacement building to third parties, thereby reducing market risk.

### **Building Concept**

On February 21, 2014 the Office of Facilities Planning and Construction received authorization to proceed with the project. Request for Qualifications and Request for Proposals were initiated on February 28, 2014 to select the Architect Prime and Construction Manager at Risk for the Project.

Page Southerland Page, Inc. was appointed the project architect prime on April 3, 2014 and DPR Construction, Inc. was awarded the Construction Manager at Risk contract on April 18, 2014.

A Program Validation was conducted resulting in the revision of project scope as follows:

The proposed Office Building will comprise approximately 342,200 gross square feet of space and have 20 total levels, 19 of those above ground. A breakdown of the levels and uses follows:

Level 0	Below Ground Parking/Basement (Storage, Receiving, Special Parking)
Level 1	Ground Floor (Lobby, Meeting, Security, Retail)
Level 2	Second Floor (Board Room, Board Offices, Meeting)
Levels 3-10	Parking
Levels 11-19	Office Space

#### Strengths

- Superior access and mass transit options
- Near to Texas Capitol, U. T. Austin, and the centroid of U. T. System employee base
- Single building with reasonably large floor plates would create beneficial employee adjacencies
- Control of costs and operations due to ownership
- Land owned by U. T. System and unchanged location minimizes controversy and impact on employees
- Austin central business district location has a large pool of prospective tenants for excess office space and ground lease for the South of 7th property

#### Weaknesses

- Interim off-site lease for Lavaca and Colorado Building employees increases disruption and cost due to a double-move and need for interim lease space
- Constrained site will make construction more difficult than non-constrained location

#### Economics

- NPV of Cost over 33 years: \$90 – 120 million
- Annual Cost: average \$5 – 7 million
- Annual saving from Status Quo: approximately \$2 – 6 million

#### Considerations

- The least expensive way to stay in downtown Austin, provides a new, more efficient office space

Sizing the building to reasonably use the land to its full economic capacity creates long-term flexibility for UTS to grow if needed.

This design reflects a full use of the site reflecting market economics by avoiding extensive underground parking in favor of a podium design consisting of an office tower above a plinth of structured parking and ground and lower level lobby, retail, and meeting rooms.

See Stacking Plan in Appendix C.

### **Baseline Alternative: Status Quo**

Dismissing any kind of a move or change would result in no initial disruption or changes, no initial capital costs, and continued superior access to the Texas Capitol and U. T. Austin.

However, the high operating and replacement costs, inefficient use of space, and fragmented adjacencies make the status quo option unattractive. While the current complex has adequate office space for the current UTS Administration census, it allows for little growth. Assuming only financial considerations, it is estimated that over the next 33 years UTS would spend an additional \$30 – 90 million in present value dollars to maintain the status quo vs. a new single downtown building.

**Strengths**

- Superior access and mass transit options
- Many surge space options and downtown amenities
- Near to Texas Capitol, U. T. Austin, and the centroid of the U. T. System employee base
- Minimal risk, land owned by U. T. System
- No initial capital costs
- Control of costs and operations due to ownership
- No controversy

**Weaknesses**

- High ongoing operating and capital costs, reflecting multiple older buildings
- Inefficient space use due to limitations in size, layout, and number of buildings
- Fragmented adjacencies due to small floor plates, multiple buildings
- Limited room for growth
- If growth follows projection, will need both office and parking lease space offsite with attendant expenses

**Economics**

- NPV of Cost over 33 years: \$150 – 180 million
- Annual Cost: \$9 – 11 million

**Funding**

Project funding sources are identified below.

Funding Source	Amount
Revenue Finance System (RFS)	\$ 133,100,000

Projected operating costs of a single replacement structure will provide attractive long-term metrics when compared to the status quo. For example, from fiscal year 2014 through fiscal year 2047, the cost savings of a replacement facility will generate \$2-6 million in annual operating cost that could total \$30-90 million in NPV savings over the same timeframe. For more information on the economic analysis, please see Section III.

**Basis of Design and Building Systems**

The design and construction of the replacement building will be managed by the Office of Facilities and Planning and Construction (OFPC). As such, the facility will comply with

generally recognized commercial office building standards and all applicable codes. In addition, the facility will be of conventional construction – concrete, steel or a mix of the two – and contain an on-site chiller system with sustainable, energy saving design elements. The facility will follow UTS space standards that have been developed in conjunction with the program validation and contain flexible office area designs to allow for organizational change, efficient security and access management systems.

### **Alignment with UTS Mission**

The U. T. System Administration exists to support the nine universities and six health institutions that comprise the system. The System mission statement states, “U. T. System Administration leads and serves our academic and health institutions to create and sustain excellence in educational opportunities, research, and health care.” UTS applies its expertise to the varied elements and complexities of the 15 academic and health institutions it serves. By striving to keep ongoing costs low and achieve greater employee efficiencies, the replacement building will help the UTS achieve its mission.

## **STRATEGIC RATIONALE, JUSTIFICATION AND OPTIONS**

### **Strategic Rationale and Justification**

The UTS replacement building will decrease the financial obligations as compared to the current office complex and will further support more efficiency on the part of its employees, which in turn allows them to better serve the UTS institutions.

More than a dozen alternatives were considered during the initial discovery process to determine the best option for UTS, including leasing commercial office space in downtown Austin. All but five were screened and found to be either too expensive or poorly located. The remaining five alternatives, plus a status quo baseline alternative, were subjected to closer scrutiny. The most beneficial alternative is building a replacement building on UTS property, on the half block where the Lavaca and Colorado Buildings are currently located.

The recommended single replacement building satisfies both financial and best efficiency criteria. The no action option (“Status Quo”), which would be to continue to reside in the current UTS complex, would result in an additional \$30-90 million in NPV costs due to additional maintenance, repair, replacement, capital improvement and operations costs over the next 33 years as compared to the recommended single replacement building.

### **OPTIONS REJECTED**

#### **Option 2: Buy University Park Shell Building Near Downtown**

The University Park building is a mostly-empty mid-rise office building located near Interstate 35 and 32<sup>nd</sup> Street at the old Concordia University site. UTS considered buying this building and finishing out shell-space to house UTS staff. This facility could be acquired at a favorable price and would provide satisfactory access and proximity to U. T. Austin and the Capitol and provide flexibility for long-term expansion. However, due to long-term leases put in place by the current

owner, there is insufficient vacant space in the building to meet UTS's initial requirements and no space to grow in the mid-term if needed. In addition, there is no surge space in the area, few amenities nearby, an uncertain market depth for any excess space, and the timing and nature of adjacent development continues to remain uncertain.

**Option 3: Build Tilt Wall Building on Brackenridge Tract/Central Suburb**

Located in Central Austin, near Lake Austin Boulevard and Redbud Trail, UTS could build a lower-cost, tilt-wall replacement office building along with structured and limited surface parking at this location. The single replacement building could feature large floor plates and efficient design and adjacencies and could provide good access and proximity to U. T. Austin and the Capitol.

Despite some of the benefits of furthering the development of the Brackenridge Tract, the high profile nature of the location, uncertain timing and nature of nearby development, an uncertain market depth for any excess space, a concern for losing quick access to the Capitol and U. T. Austin, and few amenities within walking distance made this option undesirable. Also, limitations in height related to the tilt wall construction method might not provide a building that meets the best and highest use requirements for this valuable land.

**Option 4: Build Mid-Rise Building on Brackenridge Tract/Central Suburb**

Located in Central Austin, near Lake Austin Boulevard and Redbud Trail, UTS could build a mid-rise office building with structured and surface parking at this location. The office building would be taller than Option 3 and include limited surface parking as well as a parking garage. This facility would require less land than a tilt-wall building and would set a precedent for building density in the area. This option was rejected for most of the same reasons as Option 3 above.

**Option 5: Build Tilt Wall Building on Mueller Ground Lease**

This option would entail a ground lease in the Mueller area and the construction of a four story building with a parking garage sized to replace existing surface parking at U. T. Austin's existing research facility at the site in addition to limited surface parking. The single replacement building would feature large floor plates and efficient design and adjacencies and would provide adequate access and proximity to U. T. Austin and the Capitol.

Despite some of the benefits of the location, UTS would be subject to a 129 year ground lease that includes terms forbidding use by non-U. T. entities, which would potentially limit future flexibility. In addition, UTS would require consent and cooperation from U. T. Austin, the City of Austin, and Mueller airport authorities. Furthermore, the location of the site was seen by concerned UTS departments as being too far from the Capitol and U. T. Austin, requiring travel on a very congested IH-35.

The considerable political entanglements and limited future flexibility of ever exiting the lease or sub-leasing all or a part of the facility to a non-U. T. entity make this option less desirable.

## **SUMMARY OF ECONOMIC ANALYSIS**

(See Also Appendix B Project Pro Forma)

The proposal for a single replacement building for UTS will result in significant cost savings vs. the current UTS complex. In addition, revenues to support the project will come from rent from third party office and retail tenants in the building, and the lease of the portion of the UTS complex located south of 7<sup>th</sup> Street.

### **Revenue and Expenses Comparison Impact**

Analysis of FY 2014 actual organizational size and growth projections to 2019, plus assumed growth of 10% over the following 25 years, determined that the original Pre-Program effort performed in 2011 and 2012 understated the size and projected growth needs of the organization. Analysis of 10 years of actual growth data was reviewed and it was determined that an assumed 10% growth over 25 years is conservative and possibility also understated depending upon System initiatives being contemplated to consolidate some Institutional functions to create greater organizational support and efficiencies.

Using current information an updated pro forma was prepared in June-July 2014 to ensure the project's 2012 established financial metric and income revenue could be achieved.

Updates to revenue from the space leases and ground leases mentioned above, and reductions in operating and replacement costs confirmed would more than offset the incremental costs of the associated increased debt service needed to build a bigger building that better meets the needs of the organization and which based on Austin economic data also more fully maximizes the highest and best use of the site. A breakdown of the revenue drivers for a the recommended project include: ground lease of the UTS land south of 7<sup>th</sup> Street, lease of available retail and office space, and parking garage income. The notable expenses will derive from debt service, operating and capital expenses, and relocation and moving costs.

Please refer to the Updated Pro Forma in Appendix B for more information on a breakdown of financial projections.

### **Total Project Costs**

The Total Project Cost of \$133.1 million includes the construction and finish-out of the replacement building, including the garage, existing structure demolition costs, as well as the costs of security, information technology, audio/visual systems and furnishings. It does not include any tenant fit-out allowance for lease or retail space which are planned to be shelled in the overall envelope of the building. A breakout of the demolition and integrated garage indicate the estimate for this work is well within the range of comparable commercial office building costs.

<b>Baseline (Office, Garage, Demolition)</b>	
Total Project Cost	\$133,100,000
TPC \$/GSF	\$ 389
<b>Calculations without Garage or Demolition</b>	
Total Project Cost	\$ 98,100,000
TPC \$/GSF	\$ 287
Average TPC \$/GSF (OFPC cost database)	\$ 322

<b>Garage Summary</b>	
Garage GSF	303,900
Total Project Cost	\$ 29,100,000
Planned # of spaces (Including Below Grade)	760
TPC/Space	\$ 38,200
OFPC TPC/Space Average*	\$ 21,600
Note: The difference between OFPC average costs and this estimate is likely due to small site footprint, a level of underground parking, garage structure sized to carry occupied floors above, enhanced security, garage equipment and building skin down the sides of the garage.	

## Overall Conclusion

The Office of Facilities Planning and Construction recommends that the BOR approve the Design Development of the current proposal for a replacement UTS facility. The replacement building would be less expensive than the existing complex in the long run, be more flexible in accommodating changes in System's space needs, and would also support a more efficient and productive workforce, to the benefit of the fifteen U. T. institutions.

## RISKS ANALYSIS

### Revenue Risks

Revenue risks exist with respect to the retail, third party office, and ground lease rental revenues, which are estimates and subject to change based on market conditions. UTS mitigates those risks by building a modern facility within an established market area. The remaining portion of the System Complex to be marketed for lease enjoys a superior location in the heart of the CBD on West 6<sup>th</sup> Street, one block west of Congress Avenue.

### Cost Risks

The cost risks associated with the proposed project are typical for any construction project, such as those related to market prices (e.g., oil price that impacts material and material transportation costs), the uncertainty inherent with demolition, and delays. Market conditions can also affect the

cost of off-site interim leasing by UTS during construction. Other unforeseen risks that can plague a project are not considered likely in view of the fact that UTS has owned and occupied this site for many years.

Should the project not be completed on time additional cost implications will result due to prolonged employee relocation expense and delayed rental income. However, the use of OFPC as project manager will substantially mitigate the risk of not meeting the completion timeline.

### **Legal and Governance Risks**

Prior to the demolition of the Colorado Building, UT system notified the Texas Historical Commission. Based on prior experience with this entity, it has been determined that the Texas Historical Commission has taken no objection to the demolition of the Colorado Building. There are no other known legal or governance risks associated with this project.

### **SUCCESS CRITERIA**

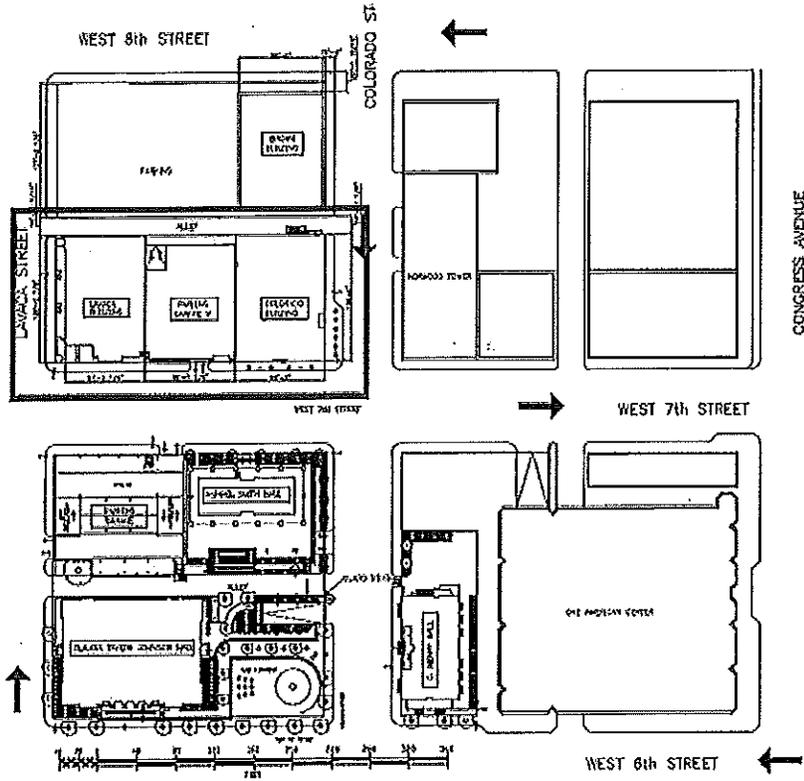
- Delivering a facility within the constraints of budget and timing
- Successfully leasing the remainder of the UTS complex and a portion of the replacement building to third party tenants, at market rates and within the timeframes forecast
- Creating a working environment for UTS that enhances productivity, retention, and recruitment

### **IMPACT OF PROJECT POSTPONEMENT**

If the project is not approved:

- Cost savings brought about by development of the proposed facility will be foregone
- No enhancement of the working environment
- Loss of economic value of capital due to inflation in the Austin construction market which trends higher than federal averages.

# APPENDIX A: Site Map



## APPENDIX B: Pro Forma

**Table 1: Annual Expenses Comparison Updated July 2014**

UT SYSTEM COMPLEX ALTERNATIVES EXPENSES SUMMARY:				
Annual Expenses Comparison*				
Fiscal Year	Replacement Office Building	Status Quo	Annual Savings	Cumulative Savings
FY14	3,269,908	7,367,200	4,097,292	4,097,292
FY15	3,021,629	6,494,681	3,473,052	7,570,344
FY16	3,745,973	4,884,850	1,138,877	8,709,221
FY17	10,565,035	5,349,401	-5,215,634	3,493,587
FY18	7,530,289	5,954,242	-1,576,047	1,917,540
FY19	7,045,912	6,281,941	-763,972	1,153,568
FY20	6,384,262	7,909,858	1,525,596	2,679,164
FY21	5,809,142	6,691,097	881,955	3,561,119
FY22	5,834,661	6,966,029	1,131,368	4,692,487
FY23	5,781,019	12,342,159	6,561,140	11,253,626
FY24	5,726,197	7,503,989	1,777,792	13,031,418
FY25	5,670,170	8,429,511	2,759,341	15,790,759
FY26	5,612,912	7,828,499	2,215,587	18,006,346
FY27	5,687,939	11,862,586	6,174,646	24,180,993
FY28	11,637,502	8,422,471	-3,215,031	20,965,962
FY29	5,997,314	8,737,986	2,740,672	23,706,634
FY30	5,948,964	8,964,574	3,015,610	26,722,244
FY31	5,899,601	9,435,948	3,536,347	30,258,591
FY32	5,951,554	9,933,111	3,981,557	34,240,148
FY33	5,902,663	10,163,103	4,260,440	38,500,588
FY34	7,528,094	10,262,406	2,734,312	41,234,900
FY35	7,519,045	10,358,670	2,839,625	44,074,525
FY36	7,509,994	10,684,052	3,174,058	47,248,583
FY37	7,749,093	11,107,488	3,358,395	50,606,978
FY38	9,911,305	12,604,999	2,693,695	53,300,673
FY39	9,926,420	12,445,935	2,519,515	55,820,188
FY40	6,082,913	12,651,129	6,568,217	62,388,405
FY41	6,039,175	13,255,019	7,215,845	69,604,250
FY42	6,144,344	13,921,159	7,776,815	77,381,065
FY43	6,102,677	22,793,892	16,691,215	94,072,280
FY44	9,403,786	19,734,337	10,330,551	104,402,831
FY45	9,444,170	14,491,603	5,047,433	109,450,264
FY46	9,004,327	14,861,552	5,857,225	115,307,489
FY47	5,760,361	15,353,892	9,593,532	124,901,020

\*Numbers in table are not Present Valued

1. Bonds Issued in FY17 with first full debt service payment in FY18
2. Lease Revenue: Office space lease revenue begins in beginning of FY18, ground lease revenue begins in latter half of FY19, and retail space lease revenue begins in FY18, all lease revenue in accordance with standard commercial real estate standards. Moving and relocation expenses are capitalized over 30 years

Table 2: Cash Flow Summary for Replacement Office Building Updated July 2014

**CASH FLOW SUMMARY  
REPLACEMENT OFFICE BUILDING**

RESULTS	
NPV	\$119,509,705
NOMINAL TOTAL	\$231,148,350

GLOBAL ASSUMPTIONS	
ANNUAL DISCOUNT RATE	4.00%
ANNUAL DEBT RATE	4.00%
ANNUAL INFLATION	2.50%

BUILDING/RENOVATION COSTS	
TOTAL BUILDING/RENOVATION COSTS	\$133,100,000
TOTAL BUILDING/RENOVATION COSTS PGSF	\$389

YEAR	FISCAL YEAR	INFLATION ADJUSTMENT	DEBT SERVICE	MOVING, IT AND FF&E EXPENSES	RELOCATION LEASE EXPENSES	OPERATING EXPENSES	REPLACEMENT AND CAPITAL EXPENSES	LEASE + PARKING REVENUES	TOTAL
-3	FY14	100.0%	64,187	2,720	-	3,203,000	-	-	3,269,908
-2	FY15	102.5%	156,760	2,788	24,800	2,837,281	-	-	3,021,629
-1	FY16	105.1%	788,939	229,172	62,440	2,665,422	-	-	3,745,973
0	FY17	107.7%	1,331,000	234,901	89,200	2,744,875	70,669	6,094,390	10,565,035
1	FY18	110.4%	7,697,186	240,774	515,844	1,984,996	72,436	(2,980,947)	7,530,289
2	FY19	113.1%	7,697,186	246,793	515,844	2,044,794	74,247	(3,532,952)	7,045,912
3	FY20	116.0%	7,697,186	252,963	515,844	2,098,009	76,103	(4,255,843)	6,384,262
4	FY21	118.9%	7,697,186	259,287	515,844	2,152,610	78,005	(4,893,791)	5,809,142
5	FY22	121.8%	7,697,186	265,769	515,844	2,208,632	159,911	(5,012,682)	5,834,661
6	FY23	124.9%	7,697,186	272,413	515,844	2,266,111	163,909	(5,134,445)	5,781,019
7	FY24	128.0%	7,697,186	279,223	515,844	2,325,087	168,007	(5,259,151)	5,726,197
8	FY25	131.2%	7,697,186	286,204	515,844	2,385,597	172,207	(5,386,869)	5,670,170
9	FY26	134.5%	7,697,186	293,359	515,844	2,447,683	176,512	(5,517,672)	5,612,912
10	FY27	137.9%	7,697,186	300,693	515,844	2,511,384	271,387	(5,608,555)	5,687,939
11	FY28	141.3%	7,697,186	308,210	515,844	2,576,742	278,172	261,347	11,637,502
12	FY29	144.8%	7,697,186	315,916	515,844	2,643,802	285,126	(5,460,561)	5,997,314
13	FY30	148.5%	7,697,186	323,814	515,844	2,712,607	292,255	(5,592,742)	5,948,964
14	FY31	152.2%	7,697,186	331,909	515,844	2,783,203	299,561	(5,728,102)	5,899,601
15	FY32	156.0%	7,697,186	340,207	515,844	2,855,635	409,400	(5,866,718)	5,951,554
16	FY33	159.9%	7,697,186	348,712	515,844	2,929,953	419,635	(6,008,668)	5,902,663
17	FY34	163.9%	7,697,186	357,430	515,844	3,006,205	2,105,459	(6,154,031)	7,528,094
18	FY35	168.0%	7,697,186	366,365	515,844	3,084,442	2,158,095	(6,302,888)	7,519,045
19	FY36	172.2%	7,697,186	375,525	515,844	3,164,714	2,212,047	(6,455,323)	7,509,994
20	FY37	176.5%	7,697,186	384,913	515,844	3,247,076	2,515,494	(6,611,421)	7,749,093
21	FY38	180.9%	7,697,186	394,535	515,844	3,331,581	2,578,381	(4,606,224)	9,911,305
22	FY39	185.4%	7,697,186	404,399	515,844	3,418,286	747,356	(2,856,651)	9,926,420
23	FY40	190.0%	7,697,186	414,509	515,844	3,507,247	766,039	(6,817,913)	6,082,913
24	FY41	194.8%	7,697,186	424,872	515,844	3,598,523	785,190	(6,982,441)	6,039,175
25	FY42	199.6%	7,697,186	435,493	515,844	3,692,174	954,557	(7,150,912)	6,144,344
26	FY43	204.6%	7,697,186	446,381	515,844	3,788,263	978,421	(7,323,419)	6,102,677
27	FY44	209.8%	7,697,186	451,835	515,844	3,886,853	4,352,127	(7,500,059)	9,403,786
28	FY45	215.0%	7,697,186	463,131	515,844	3,988,008	4,460,930	(7,680,929)	9,444,170
29	FY46	220.4%	7,697,186	-	515,844	4,091,796	4,572,453	(7,872,953)	9,004,327
30	FY47	225.9%	7,697,186	-	515,844	4,198,285	1,418,822	(8,069,776)	5,760,361

Table 3: Cashflow Summary for Status Quo Updated July 2014

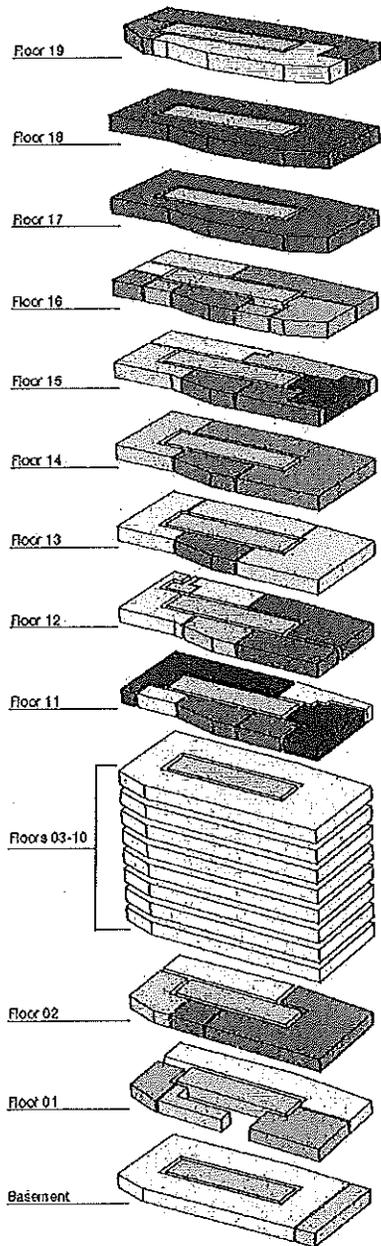
**CASH FLOW SUMMARY  
STATUS QUO**

RESULTS	
NPV	\$170,801,874
NOMINAL TOTAL	\$356,049,370

GLOBAL ASSUMPTIONS	
ANNUAL DISCOUNT RATE	4.00%
ANNUAL DEBT RATE	4.00%
ANNUAL INFLATION	2.50%

YEAR	FISCAL YEAR	INFLATION ADJUSTMENT	DEBT SERVICE	MOVING, IT AND FR&E	LEASING/ SUBLEASING	OPERATING EXPENSES	CAPITAL EXPENSES/ REPLACEMENTS	OFFSITE PARKING + RETAIL SPA/CLEANSE	TOTAL
-3	FY14	100.0%	45,000	-	-	3,303,000	4,109,000	(89,800)	7,367,200
-2	FY15	102.5%	50,000	-	140,164	3,402,503	2,965,325	(63,311)	6,494,681
-1	FY16	105.1%	50,000	-	425,963	3,505,003	938,208	(34,325)	4,884,850
0	FY17	107.7%	-	53,845	725,965	3,610,591	961,663	(2,663)	5,349,401
1	FY18	110.4%	-	-	1,040,700	3,719,361	1,162,315	31,867	5,954,242
2	FY19	113.1%	-	-	1,370,718	3,831,406	1,010,348	69,468	6,281,941
3	FY20	116.0%	-	-	1,441,711	3,931,119	2,462,029	75,000	7,909,858
4	FY21	118.9%	-	-	1,515,396	4,033,426	1,061,496	80,779	6,691,097
5	FY22	121.8%	-	60,920	1,591,864	4,138,396	1,088,034	86,814	6,966,029
6	FY23	124.9%	-	-	1,671,209	4,246,098	6,331,735	93,117	12,342,159
7	FY24	128.0%	-	-	1,753,526	4,356,602	1,294,165	99,695	7,503,989
8	FY25	131.2%	-	-	1,838,915	4,469,983	2,014,053	106,560	8,429,511
9	FY26	134.5%	-	-	1,927,477	4,586,314	1,200,986	113,723	7,828,499
10	FY27	137.9%	-	68,926	2,019,317	4,705,673	4,947,476	121,194	11,862,586
11	FY28	141.3%	-	-	2,114,545	4,828,138	1,350,803	128,985	8,422,471
12	FY29	144.8%	-	-	2,213,273	4,953,791	1,433,815	137,108	8,737,986
13	FY30	148.5%	-	-	2,315,615	5,082,713	1,420,672	145,574	8,964,574
14	FY31	152.2%	-	-	2,421,691	5,214,991	1,644,869	154,398	9,435,948
15	FY32	156.0%	-	77,983	2,531,623	5,350,711	1,809,204	163,590	9,933,111
16	FY33	159.9%	-	-	2,645,539	5,489,963	1,854,434	173,167	10,163,103
17	FY34	163.9%	-	-	2,763,568	5,632,839	1,682,859	183,140	10,262,406
18	FY35	168.0%	-	-	2,885,845	5,779,434	1,499,867	193,525	10,358,670
19	FY36	172.2%	-	-	3,012,509	5,929,844	1,537,363	204,337	10,684,052
20	FY37	176.5%	-	88,231	3,143,702	6,084,168	1,575,797	215,591	11,107,488
21	FY38	180.9%	-	-	3,279,572	6,242,508	2,855,617	227,303	12,604,999
22	FY39	185.4%	-	-	3,420,271	6,404,970	2,381,206	239,489	12,445,935
23	FY40	190.0%	-	-	3,565,955	6,571,659	2,261,348	252,168	12,651,129
24	FY41	194.8%	-	-	3,716,785	6,742,686	2,530,192	265,356	13,255,019
25	FY42	199.6%	-	99,825	3,872,928	6,918,165	2,751,170	279,071	13,921,159
26	FY43	204.6%	-	-	4,034,556	7,098,210	11,367,793	293,333	22,793,892
27	FY44	209.8%	-	-	4,201,844	7,282,941	7,941,391	308,161	19,734,337
28	FY45	215.0%	-	-	4,306,890	7,472,479	2,388,658	323,576	14,491,603
29	FY46	220.4%	-	-	4,414,562	7,666,951	2,448,374	331,665	14,861,552
30	FY47	225.9%	-	112,943	4,524,926	7,866,483	2,509,583	339,957	15,353,892

## APPENDIX C: Program Phase Conceptual Stacking Plan



**Building Footprint: (272' x 124')**  
 3,963 SF Core per level  
 5,655 Total enclosed SF- Basement  
 27,442 Total SF- Ground Level 1  
 25,452 Total SF- Level 2  
 31,743 Total SF- Levels 11-15  
 31,400 Total SF- Levels 16-18  
 30,719 Total SF- Level 19  
 342,183 GSF Total Building (excluding terraces)

**Office Space: 9 full levels**  
 283,634 SF Office Space (Including core SF)  
 247,791 SF Office Space (excluding core SF)  
 35,843 SF Office Space Core  
 176,761 SF Total System Occupied Space  
 79,570 SF Available Lease & Retail Space

**Total Parking: 8 full & 1 partial level =**  
 280,761 SF (excluding core)  
 750-770 Parking Spaces Total

**Surge/Lease Space on Levels 17 - 19:**  
 Level 17 = 27,437 Unassigned (Including circulation)  
 Level 18 = 27,437 SF UTIMCO (Including circulation)  
 Level 19 16,156 SF Unassigned (excluding 10,600 SF System space)