



West Houston Expansion

November 28, 2018



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EXECUTIVE SUMMARY

For over 40 years, West Houston and Katy ISD have been a part of the HCC community, with existing campuses in Spring Branch and Katy. We are proposing to relocate the current Katy Campus in a unique, co-location partnership with the University of Houston, where HCC will provide the first two years of academic programming for all students.

Our proposal is to consider the relocation of our Katy Campus in the most cost-effective way, with a return on investment for the HCC district.

REVENUE

This proposal is a revenue generator for HCC's taxing district; it pays for itself and allows HCC to invest in all of our in-district areas. We must identify new streams of revenue to continue serving those in our local area and this co-location effort will increase revenue by \$168M over the term of the outstanding debt, 27 years, with a net cash inflow of nearly \$29M. This cash inflow supports in-district areas with additional revenue to be used to support new programs and growth. This model of additional revenue is a proven one with the success of the existing Katy Campus, which has contributed \$20M over the last 14 years in addition to an estimated sales value of \$14M on the balance sheet through land and a building.

TAXES

An inflow of revenue at the proposed magnitude will serve to limit the number of tax rate increases for our current taxpayers and keep tuition affordable for in-district students. HCC must continue to serve our community in the fastest growing parts of our system in order to attain the return from the financial investment and student growth of our investment from 40 years ago.

TUITION

This innovative partnership with UH drives rapid growth with a projected 2,000 new students annually by 2022 and over 5,000 new students annually by 2030. With our existing facility in Katy, we cannot meet this growing opportunity to serve the students in West Houston. Since the 2013 Bond Program was for in-district improvements, the Katy Campus did not receive any funding to increase classroom space or improve laboratory facilities and continues to be funded by tuition and state reimbursement.

OBLIGATION

By law, we are expected to serve our local taxing districts and entire service area — these are our communities and students and we are obligated to serve BOTH.

OPPORTUNITY

Our current Katy Campus is as diverse as HCC's already diverse population — 78% are minority students (36% Hispanic; 23% African American; 22% White; and 19% Asian). 90% of Katy ISD graduates enrolled in higher education are attending a university or college other than HCC. There is huge opportunity for growth with the right program offerings.

EXECUTIVE SUMMARY

REPORTING

Similar to past processes, each significant milestone of the project will be brought back to the Board of Trustees for review and approval. Additionally, the College will publish an annual report of the West Houston expansion, pursuant to this prospectus.

CONCLUSION

In our vision to become the leader in providing high quality, innovative education to the greater Houston area, this strategy creates a framework for building a strong foundation for the educational environment of West Houston, HCC, and the region served by HCC. The economic footprint of the region continues to grow, and as Katy ISD approaches 100,000 enrolled students, it is more important now than ever to relocate the current Katy Campus. This co-location strategy with the University of Houston will allow us to capture economies of scope by utilizing their intellectual property and professors, and also by creating a more robust educational ecosystem for our students. Expanding in West Houston allows HCC to grow enrollment, increase revenues, provide a stronger focus on engineering, nursing and workforce-directed programming, and most importantly, form stronger partnerships with our community.

OVERVIEW OF HCC

ABOUT HCC

Education is becoming increasingly important to our citizens and our city. Some form of post-secondary degree is already necessary for most well-paying jobs and it is anticipated that by the year 2020, 65 percent of all American jobs will require education beyond high school. To keep up with the high-tech, knowledge-based global economy, Houston must respond. We must ensure all of our citizens have access to quality education and technical training. This is essential for attracting the talent to grow the Houston economy as well as making continued improvements in our quality of life.

HCC is well positioned to fill many of these educational needs. With 20 campuses across the city and more than 100 programs of study, we are bringing academics and skills development to area residents. We are partnering with industry leaders to provide best-practices training and workforce preparedness. We are joining forces with local and state universities to give our students pathways to high quality, affordable education. We are providing each of our students with one-on-one counseling to help them achieve their goals.

HCC is supplying a steady stream of accredited graduates to industries across the city. Our work, however, is not done. We must continue to find innovative ways to commit to the success of our students and engage high school students to keep them on the path to successful careers. HCC must continue to support Houston's changing educational, economic, and societal landscape. We must encourage conversations with Houston's thought leaders to embrace the future of our city and commit to making that future even brighter.

MISSION

Houston Community College is an open-admission, public institution of higher education offering a high-quality, affordable education for academic advancement, workforce training, career development, and lifelong learning to prepare individuals in our diverse communities for life and work in a global and technological society.

VISION

Houston Community College will be a leader in providing high quality, innovative education leading to student success and completion of workforce and academic programs. We will be responsive to community needs and drive economic development in the communities we serve.

HISTORY AND BACKGROUND OF EXISTING KATY CAMPUS AND STUDENT DEMOGRAPHICS

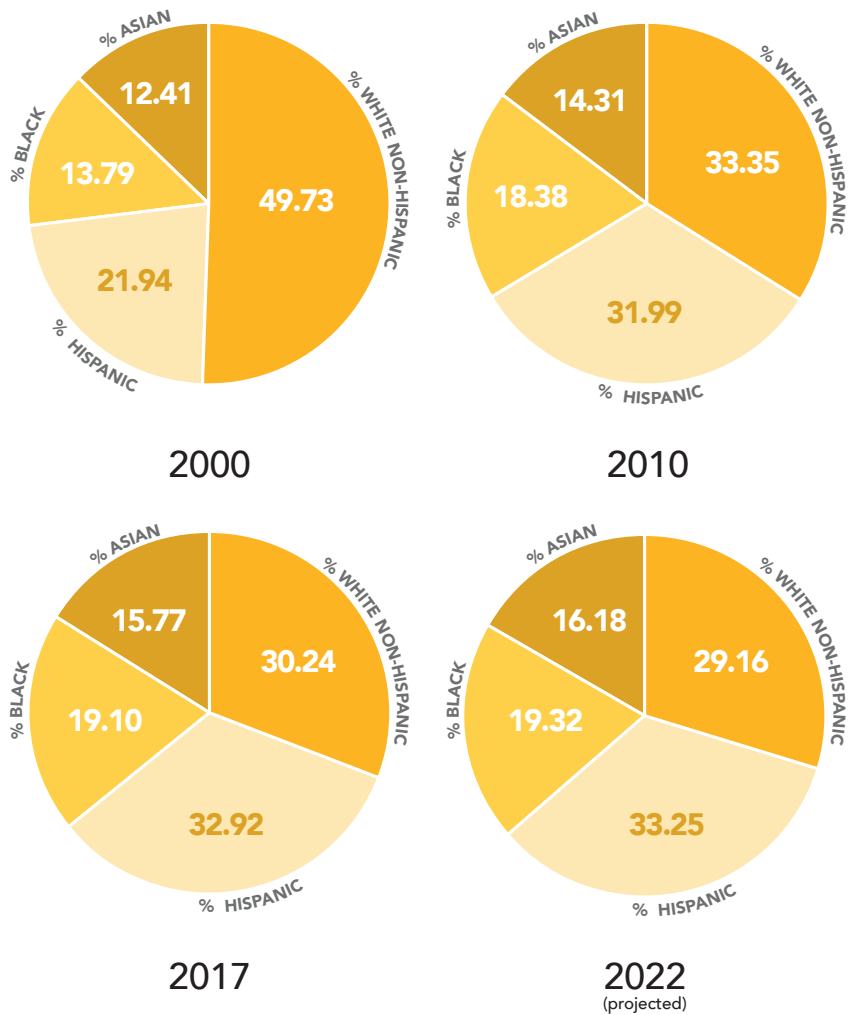
Since 1979, HCC has provided education and opportunity to Katy's residents. What first began as college option classes after school at Katy High School has grown into a college community with close to 4,300 students drawn from across the Houston area. More than a third (34%) of the Katy Campus's Texas resident students commute from within the HCC district boundaries and almost half of those (16.5%) come from within HISD.

In addition to offering educational opportunities, HCC has integrated itself into this thriving community by building a strong education brand and reputation through active participation in groups such as Katy Area Chamber of Commerce, Katy Area Economic Development Council, Katy ISD and Katy Business Association.

Strong population growth in Katy has accelerated the community’s diversification. Since the 1990s the number of households has tripled in the Katy area. Over roughly the same period, Katy ISD’s population of minority students increased from 19% to 58% of its total enrollment. In short, as it grows, the student population in Katy is becoming more and more like that of Houston.

West Houston - Diversification

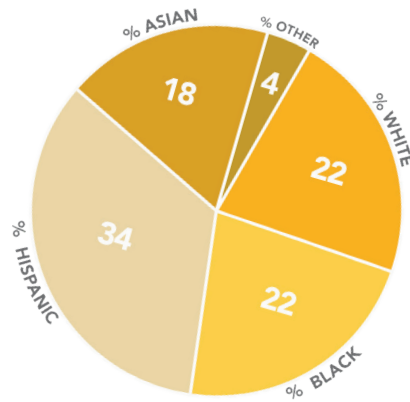
Race and Ethnic Breakdown Based on Zip Codes in HCC Service Delivery Area



Source: Easy Analytic Software, Inc. (EASI) - Census Database, Enhanced Master Database U.S. Census Bureau

Service area zip codes: 77498, 77478, 77477, 77450, 77449, 77433, 77407, 77099, 77095, 77094, 77084, 77083, 77082, 77079, 77077, 77072, 77043, 77042, 77041

Race and Ethnic Breakdown of 2017-18 Enrollment — Katy Campus



PELL Grant Students – 30.92%
First Generation Students – 31.07%

CHANCELLOR STATEMENT

Houston Community College continues to address sustainability and the longer term needs of the community through various partnerships with colleges and universities and by expanding its programs. The College plans to relocate and increase the size of the Katy Campus to meet the needs of the far west Houston area - our current service area - and to expand our programs to meet the growing in-demand needs for science and workforce programs, such as nursing, at the most economical cost and value to our district.

Last year, we were approached by the University of Houston to co-locate nearer to them in the West Houston-Katy area and to provide the first two years of academic programming for students attending the university. Given the needs of the growing West Houston service area, HCC has an opportunity to expand programming and sees potential growth opportunities as we continue to provide needed educational services to our service area, as well as to support our in-district needs.

Based on the expected growth in West Houston (a projected 2,000 new students annually by 2022 and over 5,000 new students annually by 2030), the current Katy Campus is at or near capacity and will not be able to meet these demands for HCC's service area. In addition, the Katy Higher Education Task Force encouraged greater commitment from HCC to build a more comprehensive baccalaureate (2+2) program.

HCC determined that a longer-term cost effective strategy that emphasizes student success and completion should be developed. With the support of the HCC Board of Trustees, the community and the University of Houston, the College can relocate its Katy Campus and acquire property adjacent to the University of Houston. This effort positively affects student success in several ways: it presents a seamless 2+2 transfer program arrangement, accommodates a larger facility for the growing needs for instructional delivery, and expands science facilities. In addition, co-locating to an adjacent location will foster creativity of a campus environment and reduces the commute time for HCC students. The most economical and advantageous way to relocate our facilities is to use proceeds from the sale of the current Katy Campus, estimated value \$14 million, and sell other closed identified properties (estimated value \$4.8 million) to purchase the land and to design and construct a building that will meet our projected growth needs.

The following prospectus presents an overview of the current and future community needs, the project and capital plans, and the financial plan for the acquisition of property and for the design and construction funding of a new facility.

I want to thank the Board of Trustees for their insight and acceptance of the original concept as well as support to negotiate acquisition of property adjacent to the University of Houston-Katy, as well as their continued advocacy for student success! Building capacity for the future will help HCC achieve its mission of student success, and, to that end, it will also help us achieve our important goals of 60x30TX.

Sincerely,

Cesar Maldonado, Ph.D., P.E.
Chancellor
Houston Community College

CURRENT AND FUTURE COMMUNITY NEEDS

FAR WEST HOUSTON CAMPUS SCOPE DEVELOPMENT REPORT*

In November 2016, HCC commissioned the “HCC Far West Houston Scope Development Report” which suggests that the current Katy-Foxlake Campus is ill-equipped and located to capture the growing population and enrollment potential of West Houston.

Facility Programming and Consulting completed an analysis of the existing Katy-Foxlake Campus and the proposed Far West Houston Campus demographics, scope, and development, and also validated student demand and facility needs. The final report indicated that the existing Katy-Foxlake Campus was near maximum capacity and no longer an ideal location to capture the continued growth of potential HCC students in West Houston. The proposed West Houston Campus location is geographically and demographically ideal to provide a growth opportunity for HCC to serve this community which is expected to continue growth for several decades. The report also identified the need for a 160k SF (Phase I) facility to accommodate the current Katy-Foxlake student population and a growth opportunity for additional capacity. The co-location with the University of Houston system provides yet another compelling reason to move forward with this project.

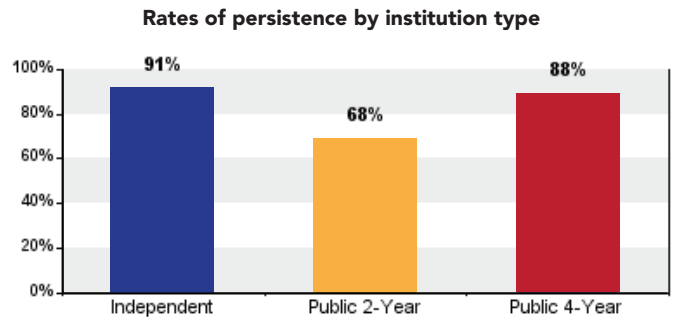
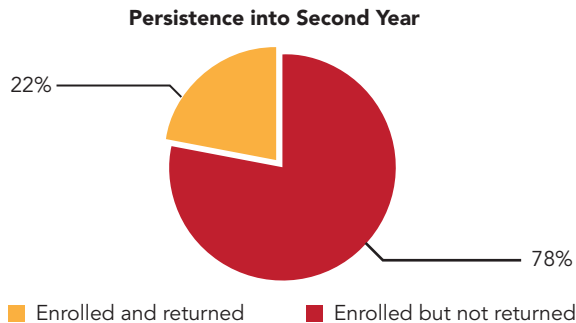
After review of the study, the population growth, geography changes, and enrollment projections are in line with our expectations and experience. However, for long-term funding and internal requirements, HCC has concluded that the initial building size should be 140K SF, rather than the recommended 160K SF, in order to be more cost-effective. Overall, the report is a good indicator and guide to expanding HCC’s reach and potential in West Houston.

On Page 44 of the Scope Development Report, enrollment is projected to increase from an additional 2,000 students annually in year 2022 to an additional 5,000 students annually in year 2036. However, in July 2018, Facility Programming and Consulting revised its original growth projections to increase to 5,000 students annually in year 2030 and 6,000 students annually in year 2036. While the area is growing faster than originally projected, administration still recommends initially building a 140K SF building. Given the planned building size, the cash flow projections reflect a maximum enrollment increase of 3,000 students annually. See the Financials in the Appendix for a file entitled “Katy Project Incremental Cash Flow Projections,” which illustrates a positive cash flow for the first 27 years of \$29 million and a file entitled “Katy Project Total Cash Flow Projections” with a positive cash flow of \$100 million.

*Full report available upon request

ENROLLMENT

Although the Katy ISD currently approaches 80,000 students, and status as the sixth largest school district in Texas, enrollment projections continue to grow with an estimated 100,000 students by 2028. The staggering growth in West Houston’s primary and secondary education has, and will transition into post-secondary education demand, and if conversion rates of approximately 10% persist into the HCC system, we can expect larger levels of college enrollment.

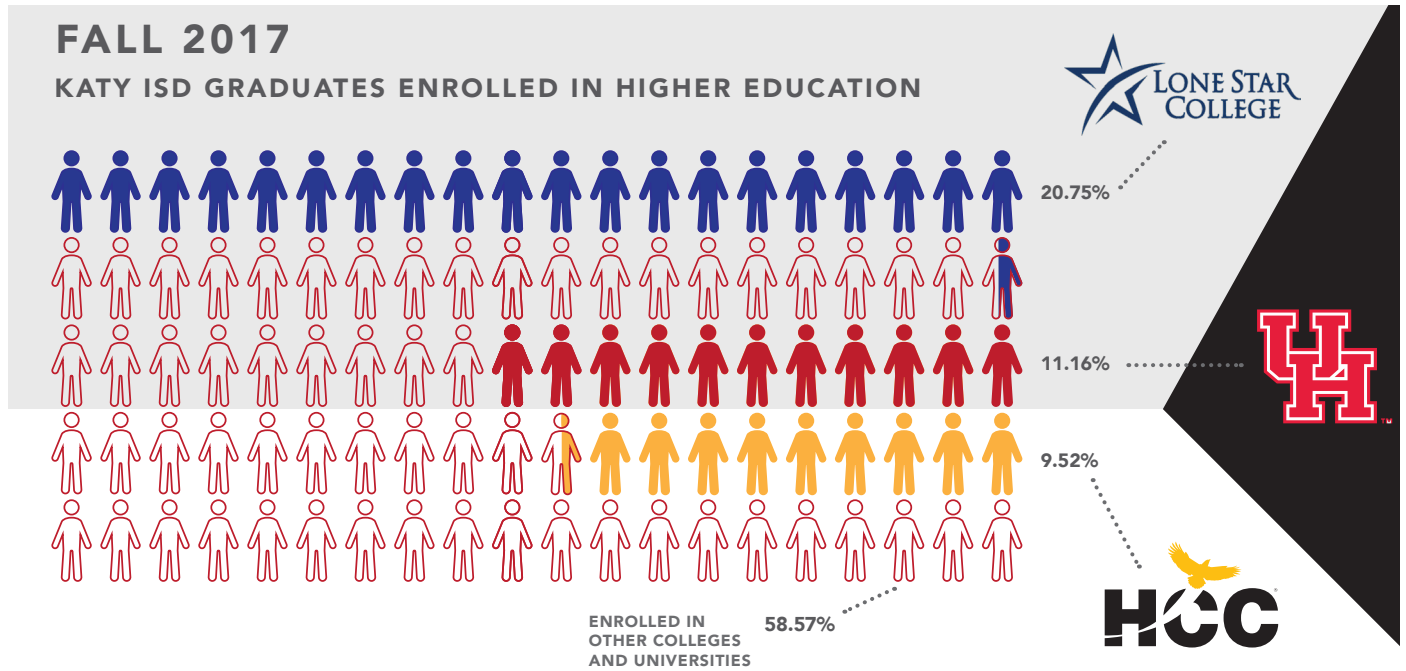


Given the projected enrollment increases for West Houston, the current facilities are not large enough to accommodate an increase in students, and, additionally, cannot support more in-depth STEM programming due to inadequate science and engineering labs.

We propose building a 140K SF facility, as the anchor of an expansion initiative, in order to capture this demand. As noted on page 7, it is projected that there will be an additional 6,000 students annually in year 2036, which will exceed the maximum capacity of a 140K SF building and requires increasing the building’s size or constructing additional facilities on the same tract of land. The cash flow projections in the appendix only include the maximum enrollment of 7,000 for the initial recommended 140K SF facility and do not assume any expansion. Expansion of the campus will be necessary as the enrollment projections are realized.

COMPETITION

HCC faces an increasingly competitive environment in the Katy Area. For-profit universities are moving aggressively into the area and Lone Star College has opened a new facility on the edges of the district, only 3 miles from our existing Katy Campus. HCC must stake out a unique position in this extremely promising educational market or risk losing market growth opportunities permanently.



/// STUDENT OPPORTUNITIES

Source: Texas Higher Education Coordinating Board and Texas Education Agency
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PROGRAMMING AND PATHWAYS

Burgeoning community and business growth in Katy is expected to sustain the need for a college-educated workforce. HCC will be at the forefront of these needs through our comprehensive programming focused on STEM academics, which include engineering, nursing and computer science.

The HCC Pathways program, which will allow students to start and finish their undergraduate education in Katy, is core to the future of this workforce. Through a partnership with the University of Houston system, we are creating direct pathways, in education and STEM programming, from HCC to the University of Houston. The 9-16 teaching program will allow high school students to begin to pursue an education degree through the dual credit association and HCC and enter the University of Houston-Victoria a few credits short of an associate's degree. As we continually expand our partnership, we are exploring the opportunity to provide an enhanced engineering pathway direct to the Cullen College of Engineering at the University of Houston-Main Campus. This program is designed to create a joint engineering environment, with the first two years completed at HCC in Katy.

OUR COMMITMENT TO 60X30TX

In 2015, the Texas Higher Education Coordinating Board committed to a vision of securing the economic future of Texans through successful completion of higher education. By 2030, sixty percent of Texans ages 25-34 will have a certificate or degree. Houston Community College "is one of 12 two-year colleges from across the state leading this work in support of the Texas Higher Education Strategic Plan." This initiative paired with our ongoing programming, work with Pathways, and co-location strategy is paving the road for attaining the four goals outlined for this program: an educated population, completion of a certificate, associate, bachelor's, or master's, attainment of marketable skills, and capping student debt at 60 percent of first-year wages. Pathways will secure certificate or degree completion while also leveraging lower tuition costs during early years to cap student debt. Our commitment to robust STEM programming will ensure that students entering HCC will graduate with marketable skills required by the community and local economy.

LONG-TERM FUTURE MASTERPLAN

In order to sustain and supplement the proposed investment, HCC will offer programs to spur community support and buy-in. Proposed programming could offer building naming rights in addition to economic development opportunities and should result in leveraging the HCC investment for a larger state investment.

JUSTIFICATION

In order to meet the demands expressed by the Katy Higher Education Task Force, HCC established partnerships with the University of Houston System. Initial agreements have exploited synergies between our existing Katy Campus and their facility in Cinco Ranch. However, we are still limited in our ability to teach the sciences, in-demand workforce programs such as nursing, and other equipment-intensive programs due to the space limitations inherent in our existing 108,500 square-foot building, formerly an office building which contains a large center atrium.

We are currently in discussions with Katy ISD to offer additional workforce programs at Miller Career Center. However, the opportunity to offer comprehensive baccalaureate (2+2) programs remains a central goal as outlined by the Katy Higher Education Task Force. To meet this challenge, the University of Houston has offered us a potentially very cost-effective solution.

HCC has an MOU with the University of Houston system to share facilities and align programs to offer a comprehensive four-year pathway to a Bachelor's degree in the community. To create room to fully realize the benefits of this partnership, however, we require a more comprehensive campus to offer programs we are unable to accommodate within our existing space. HCC has an opportunity to build on our successful partnership with the University of Houston System by building an integrated, comprehensive campus to serve the West Houston community.

In conclusion, HCC is leading the strategy in the West Houston community and is leading the discussion on possibilities for the future. The University of Houston System is a solid partner in the discussion. Therefore, HCC has a perfect opportunity to stake its territory within the community and solidify its relationship with this strategic community. We have the support of the community, and many on the school board and in community leadership roles. It is critical we move forward on cost effective solutions that will create win/win solutions for all of the partners involved.

This partnership will meet the educational demands of the Katy area in a unique and cost-effective way unavailable to any of our potential competitors. The current facility is unable to meet the needs of a growing service area. The Katy Campus is at enrollment capacity, and because the campus was retrofitted from an office building, there is inefficient use of classroom space. 30% of space is not usable for instruction. The inefficiency is further negatively impacted by our inadequate science labs.

A new facility in proximity of UH Katy will better meet the students' needs. First, a larger, more efficient facility will allow for enrollment growth and enable more classes to be offered. Second, new science labs will support the high-demand need for STEM courses required by the UH Katy Engineering Program. Culturally and aesthetically, co-locating will foster the creation of a campus environment our students desire.

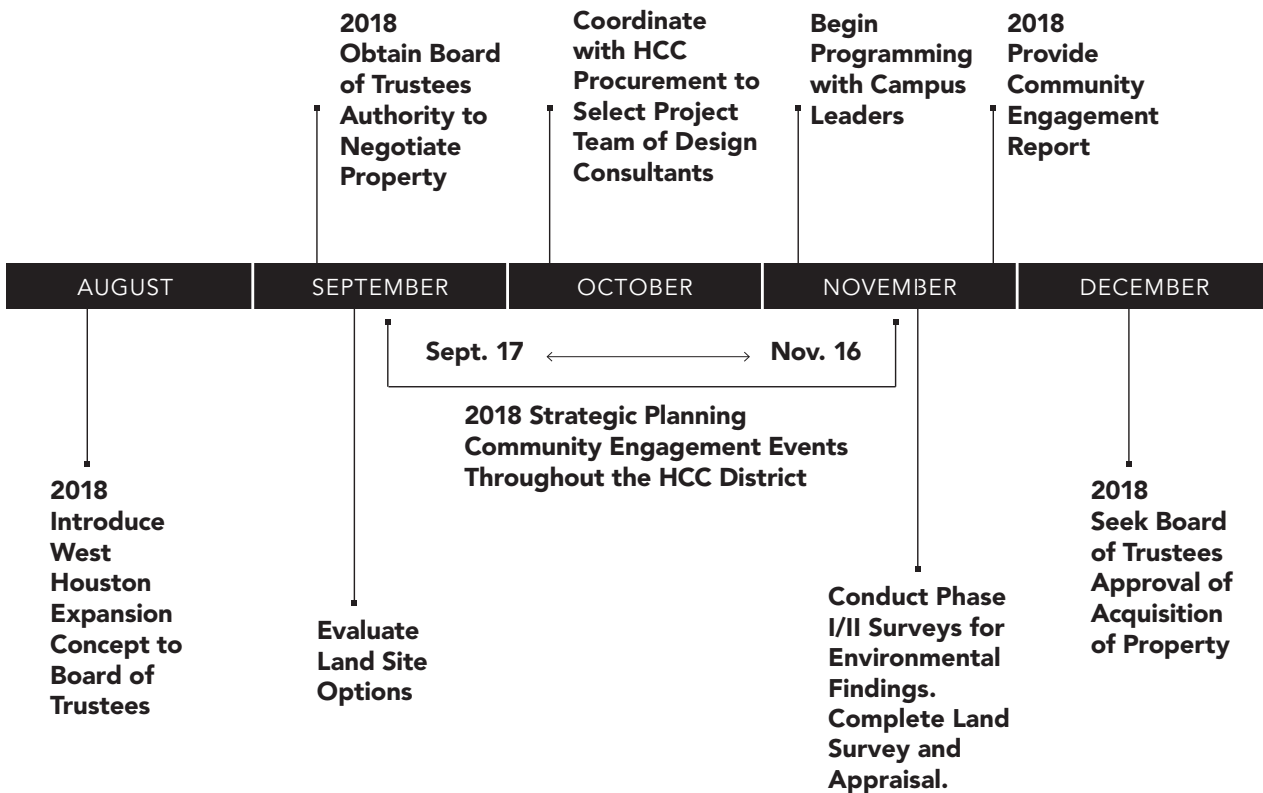
PROJECT TEAM AND RESPONSIBILITIES

Dr. Zachary Hodges and Marshall Heins will direct the team with internal resources and community support. Once this project is approved, they will assemble the following resources and begin following the program timeline.

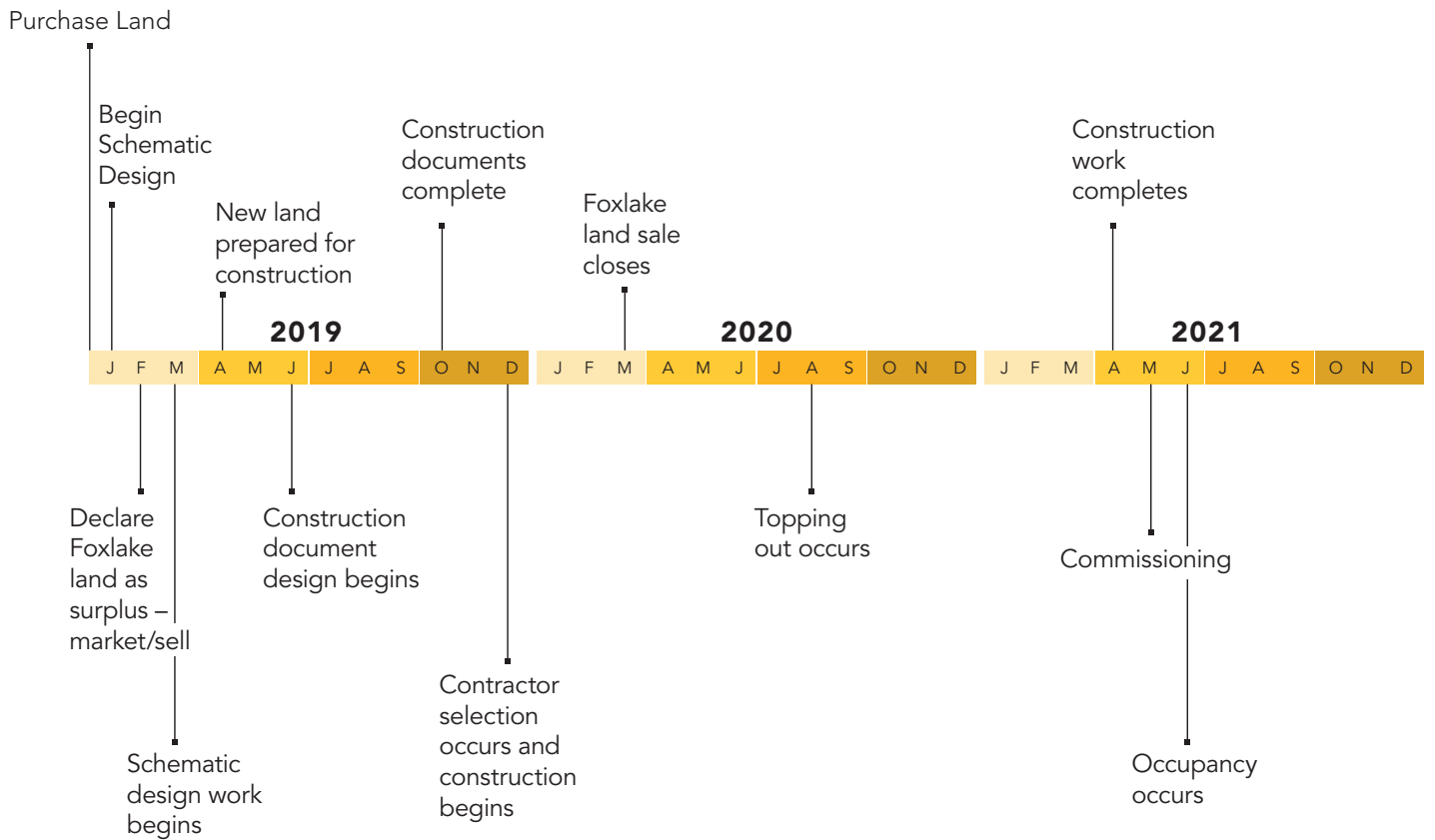
1. Campus Academic Program Development team
2. HCC Finance/ Funding team for project and continued pro forma analysis
3. Design team: programmer, architect, engineers, FFE consultants, contractors/ estimators, and outside legal counsel

TIMELINE AND MILESTONES

2018 Board Timeline



Project Timeline



CAPITAL PLAN

BUILDING RENDERING



LAND ACQUISITION AND DEVELOPMENT

The facility will require a 24-acre initial purchase at approximately \$9-\$12 per square foot, which, at the upper bound of negotiations, will cost approximately \$12.55 million. There will be a three-year option period at +/- \$250,000 per year in which HCC will have the option to purchase the adjoining 30+/- acres of land at an annual escalated price of 5-7% per year. Before closing, HCC will complete utility due-diligence, topographic, wetland and environmental, and building surveys. The initial due diligence period will be 90 days.

BUILDING DESIGN AND CONSTRUCTION

A design team will be assembled during the land due-diligence period wherein building standards will be developed with HCC.

Very preliminary analysis suggests approximately two-thirds of assignable space in the new building will be allocated to instruction or direct instructional support, which includes library and tutoring/academic assistance. The remainder of the building should be expected to include space for faculty and administrative offices, community and student life/auxiliary services, and building support. All programming will be in accordance with the Texas Higher Education Coordinating Board (THECB)

SALE OF EXISTING CAMPUS

As of October 15, 2018, an appraisal has been ordered for the existing campus with results pending. The Katy-Foxlake Campus building will be marketed with the adjoining vacant 25+ acres and the converted commercial, atrium-style building will be sold as-is.

CONCLUSION

As West Houston continues to grow, and the center of Houston continues to move West/Northwest, HCC must be at the epicenter offering innovative and high quality post-secondary education. Katy ISD is predicted to steadily grow from 80,000 to 100,000 students over the next 10 years with a promising conversion rate to Houston Community College. However, the current HCC location and structure proves to be a barrier to the impending demand, enabling Lone Star College and other competitors to capture the market.

We have shown that the HCC Katy-Foxlake facilities are currently inadequately sized and inefficiently structured to provide quality Science, Technology, Engineering, and Math (STEM) coursework, a cornerstone of this and the future generations' workforce. Strategically, and in-line with our 60x30TX commitments, we must invest in furthering the skill sets of West Houston residents as businesses continue to lay economic roots in the region. A co-location strategy with the University of Houston will allow us to capture economies of scope by utilizing their intellectual property and professors, and also by creating a more robust educational ecosystem for our students. This strategy, along with offering more comprehensive pathways between our System and our partners, will guarantee a strong foundation in the educational environment in West Houston, increasing revenue generation and facilitating stronger partnerships with our community. Assuredly, HCC will become a step closer to becoming the leader in providing high quality, innovative education in Katy.

Similar to past processes, each significant milestone of the project will be brought back to the Board of Trustees for review and approval. Additionally, the College will publish an annual report of the West Houston expansion, pursuant to this prospectus.

APPENDIX

FAR WEST HOUSTON CAMPUS SCOPE DEVELOPMENT REPORT

The summary below answers key questions regarding the current Katy Campus, possible geographies for a new campus, and best practices for executing on this project. If you would like to view the full report, it is available upon request.

KEY QUESTIONS ADDRESSED IN THE FAR WEST HOUSTON CAMPUS SCOPE DEVELOPMENT REPORT

1. Does the effective service area of the Katy-Foxlake Campus inefficiently overlap with the Spring Branch Campus?

Drive-time analysis suggests Foxlake and Spring Branch are too close to maximize enrollment and provide efficient geographic distribution. Geocoding illustrations of the geographic distribution of student residences for each campus reveal three critical observations: Spring Branch, in its role as a comprehensive campus, draws from a wide geographic area; the Barker and Cypress Reservoirs are a significant barrier to access; students will travel east, to attend the Spring Branch Campus or towards likely location of employment, but not west. The reservoirs define a bifurcated market with limited overlap. The primary future consideration is less “overlap” than positioning the campus to maximize enrollment from neighborhoods west of the reservoirs.

2. Do capture rates suggest Foxlake Campus enrollment is below potential?

Foxlake historical enrollment has been essentially flat in recent years. In the catchment area overall population is growing rapidly as are the number of high school graduates from the Katy Independent School District. Therefore, Foxlake student enrollment capture rates of both primary contributory populations are consistently declining. Foxlake enrollment is well below potential as the campus is struggling to maintain enrollment in a growing market.

3. How does the instructional capacity of the current Foxlake Campus measure against the SUE standards of the THECB?

The Texas Higher Education Coordinating Board (THECB) uses the Space Usage Efficiency (SUE) score to measure utilization of classrooms and laboratories. This data-driven tool allows higher education institutions to “right-size” the number of capacity of instructional spaces.

The instructional capacity of the Foxlake Campus is approximately at THECB SUE standard measured against Fall 2015 enrollment. Adjusting for a 32-seat classroom, the SUE standard indicates 29 classrooms versus the current inventory of 32 classrooms. Adjusting for a 24-seat laboratory, the SUE standard indicates 17 labs versus the current inventory of 13 labs. It is important to recognize the SUE score is strictly a quantitative measurement of utilization and is “blind” to the nature of the capabilities provided. Independent of count, significant investment would be required to bring the current labs to the standards of a 21st century learning environment.

4. How will population growth in the Katy area change over the next two decades?

The greater Houston population traditionally expands outwards along radial freeways, in the Katy area, Interstate 10. Maps of subdivision development in the Katy area reveal an arc of neighborhoods immediately west of the reservoirs that is effectively completely built out.

Over the next two decades residential development, and corresponding population growth, is projected to migrate to the north.

Newer subdivisions generally have younger families. Katy Independent School District enrollment projections indicate high schools on the western edge of the district will each add over 1,000 students from 2016 to 2020. High schools serving older, more mature neighborhoods, on the southeastern portion of the district are projected to decline in attendance. The existing Foxlake Campus is therefore poorly positioned to serve the future growth of the Katy area.

5. Will relocating the campus to the area suggested by the Real Estate Study increase enrollment compared to the existing location?

The Real Estate Study suggests a new campus site, generally north of I-10 along the Grand Parkway. For comparison, to measure the incremental impact of relocating the campus, two baseline headcount enrollment projections compare the historical trend enrollment of the existing Foxlake Campus to an enrollment scenario that measures a hypothetical relocation of the existing campus, assuming “all other things being equal,” with no changes to the physical environment or program offerings.

Projections suggest relocating the campus will significantly increase enrollment. Further, the impact of relocating increases over time as residential development and population shift northwest. In Fall 2019, with the opening of the new location, capture rate projections for the new catchment area project an incremental increase to headcount enrollment of approximately 250 students due specifically to relocating the campus. By 2036, the incremental increase to headcount enrollment caused by relocation is projected to be 2,200 students, or approximately 50% more than would be served at the existing location.

6. What is the projected short-term and long-term enrollment in the recommended target area?

In addition to the baseline projection, two projections based on capture rates of the target population and one based on capture rates for Katy high school seniors provide enrollment scenarios. These scenarios create a range illustrating the likely low and high enrollment potential of a new campus at the new location. Within the boundaries of the range, the Far West Houston Task Force established a Planning Line for calculating the instructional capacity and space needs of the proposed Campus. In effect, the Planning Line assumes over time that as programs grow and the reputation of the campus is solidified, that enrollment will grow from the conservative initial estimate to a level similar to that demonstrated performance of Lone Star College west Harris County facilities.

Relocating the campus and providing new facilities will significantly increase enrollment compared to the existing campus and location. Beginning with 4,900 headcount enrollment in 2019, the new campus enrollment almost doubles over the twenty-year planning period to headcount enrollment of 9,400 in 2036. This is a level comparable to the current West Loop or Eastside Campuses, currently the second and third largest unduplicated headcount in the system.

7. What size facility is needed to serve the projected enrollment based on the THECB space model?

The Texas Higher Education Coordinating Board SUE methodology can be applied to a campus to model the number of classrooms and laboratories required to serve a given enrollment at the

target level of utilization. A second tool, the THECB Five-factor model, provides target space allocations for other building areas including Faculty and Administrative Offices, Student Support, Community Spaces, and Building Support.

Based on the enrollment Planning Line, two campus planning scenarios project the appropriate scale of the future campus: Phase 1, assumed for initial construction opening in Fall 2019; and Phase 2, projecting campus facility requirements forward twenty years to 2036. The current Foxlake Campus occupies approximately 108,500 gross square feet (GSF). For campus planning purposes, Phase 1 includes facilities totaling 160,000 GSF. Phase 2 includes facilities totaling 290,000 GSF.

8. What potential sites are available in the target area?

For site evaluation, HCC identified five suitably-sized properties in the target area. These five sites likely represent all known commercially advertised options available during the study window for siting the new campus.

From north to south, the five sites include parcels located at:

- Clay Road at the Grand Parkway — 159 acres
- Morton Road at Katy Fort Bend Parkway — 78 acres
- Colonial Parkway immediately northeast of I-10 and the Grand Parkway — 55 acres
- University Park immediately northeast of I-10 and the Grand Parkway — 15 acres
- Katy Flewellen Road southwest of Westheimer Parkway — 109 acres

9. What site development criteria is used to analyze the potential sites?

Each site is analyzed for the potential impact of floodway and floodplain, wetlands, pipelines, easements, access and roadway improvements, availability of utilities, zoning, size/buildable area, current land use, zoning, topography, and barriers to development.

10. Do any potential sites face significant barriers to development?

Significant portions of the Morton and Katy Flewellen sites are within the floodway or 100 year floodplain and neither site offers an existing municipal utility district (MUD) providing water and sewer services. Required floodplain remediation would be costly and time consuming, if feasible. Developing either site would require HCC constructing and operating water and sewer treatment facilities, which, if feasible, add significant construction and ongoing operating costs. Due to these conditions, it is the professional recommendation of the consulting engineer to eliminate the Morton and Katy Flewellen sites from consideration.

11. What is the estimated cost to develop each site with Phase 1 improvements providing a campus of 160,000 gross square feet?

Assuming Phase 1 includes 160,000 gross square feet of facilities and 1,200 parking spaces in each scenario, total cost to develop the site and construct facilities is estimated to range from \$62 million to \$78 million. The least expensive to develop is the Colonial Parkway site (\$62.1 million) as the site has available utilities and adequate land to allow surface parking. The Clay Road site, (\$67.8 million) requires construction of roadways, as well as facilities to provide water and sewer service. The University Park site (\$78.1 million) is the most expensive site to develop due to the requirement to provide a parking garage.

12. How does the land cost compare?

The size of the sites varies widely and the two parcels adjacent to the intersection of I-10 and the Grand Parkway are significantly more expensive per buildable acre. The least expensive, but much smaller and most expensive per acre, is the University Park site (15 acres/\$9.1 million/\$642,000 per buildable acre). The more rural Clay Road site is the least expensive per buildable acre (76 acres/\$14.1 million/\$247,000 per buildable acre). The Colonial Park site is the most expensive but provides a much larger site in a prime location (55 acres/\$23.8 million/\$459,000 per buildable acre).

13. What is the estimated total project cost for Phase 1?

The total cost to buy land and develop Phase 1 facilities is similar for the three sites. Clay Road (\$81.9 million) is the least expensive, primarily due to lower land cost and surface parking. Colonial Park (\$85.8 million) has higher total land cost but is estimated to be less expensive to develop. University Park (\$87.2 million) is the most expensive option due primarily to the large expense of constructing parking garages.

FINANCIALS

SUMMARY CAPITAL TRANSACTIONS / 140K S.F. BUILDING

Inflow	— Sale of Existing Katy Campus	\$14,000,000 ⁽¹⁾
Inflow	— Sale of Westheimer & Delano	\$ 4,800,000 ⁽²⁾
Outflow	— Land, Design & Construction of Bldg.	<u>(\$54,000,000) ⁽³⁾</u>
Amount Permanently Financed		<u><u>(\$35,200,000) ⁽⁴⁾</u></u>

(1) Existing Katy Campus debt was paid off in October 2015; best estimate of sale value; appraisal in process

(2) Amount of proceeds available (with no associated debt balance)

(3) Footprint subject to change as project develops; based on estimated market rates for land and construction costs.

(4) Interim bank loan (2.55% interest only) during construction period and pending sale of existing Katy Campus after opening new campus. Permanent tax-exempt financing at 3.77% interest over 25 years.