




U N I V E R S I T Y of H O U S T O N

CONRAD N. HILTON COLLEGE OF HOTEL AND RESTAURANT MANAGEMENT
OFFICE OF THE DEAN

DATE: November 12, 2008

MEMO TO: Carl Carlucci
Executive Vice President, Administration and Finance

COPY: Dona H. Cornell, Jon C. Schultz

FROM: John T. Bowen 

RE: Regent Approval – Updated Renovation Budget for
Hilton University of Houston Hotel

Pursuant to the discussion with you and Dona Cornell on November 5th, we have all agreed that it is appropriate that we submit a project and budget update to the Board of Regents for the renovation of the Hilton University of Houston Hotel.

BACKGROUND

At its August 2007 meeting, the Regents approved a request for Dr. Rudley to sign a Memorandum of Understanding with Hilton Hotels Corporation regarding the re-licensing agreement for the Hotel and a management agreement.

Further, Dean Bowen gave a presentation to the Regents on the scope of the hotel's renovation, summarized as follows:

- **Project cost – based on Cumming Corporation 6/5/07 net of scope reductions and includes \$1,193,222 UH deferred maintenance estimated costs** **\$ 11,108,585**

• Open items not quantified at the time	\$ 180,856 to \$ 339,105
> addressable fire alarm	
> replace HVAC controls	135,642 to 271,284
> replace sprinkler system	90,428 to 180,856
> fire/smoke dampers in stairwells	40,000 to 120,000
> kitchen exhaust modifications	105,000 to 180,000
> elevator modifications	50,000 to 150,000
Total open contingencies	<u>\$ 601,926 to \$ 1,241,245</u>

Average of open items \$ 921,586

- **Total project cost @ 8/6/07, includes the average of open items plus a \$1,143,856 contingency** **\$12,030,171**
 - Source of funds - committed
- | | |
|--|----------------------|
| > hotel capital reserves | \$ 400,000 |
| > funds from prior Hilton Foundation gift | 1,260,000 |
| > HEAF funds | 1,000,000 |
| > CRDM funds – for UH deferred maintenance | 1,950,000 |
| > Conrad N. Hilton Fund | <u>6,500,000</u> |
| | \$ 11,110,000 |

- Additional funds available to cover open items

> funds in existing reserve account	\$ 1,600,000	
> 30 month projection of added reserve buildup	<u>1,500,000</u>	\$ 3,100,000
- The above numbers showed that ample funds remained available to cover even the worst case scenario relating to the open items.

The project was approved by the Regents, followed by the approval of the Texas Higher Education Coordinating Board.

The re-licensing and management consulting agreements with Hilton Hotels Corporation were finalized in June 2008.

PROJECT UPDATE

- Cumming Corp Preliminary Estimate 9/24/08 – includes south wing guestrooms \$10,572,167
- Net of scope adjustments – includes guestroom window wall extension 403,049
- UH deferred maintenance estimates @ 10/30/08 1,600,000
- **Adjusted project cost at 10/30/08** **\$12,575,216**
- Open items remaining

> sprinkler modifications	\$ 75,000
> elevator controls	75,000
> miscellaneous fire safety	<u>100,000</u>
	250,000
- **Adjusted project estimate, includes a \$1,005,116 contingency 10/30/08 and remaining open items** **\$12,825,216**
- Source of Funds

> CNHF, CRDM, HEAF, Hotel reserves	\$12,050,000
> Other capital reserves – 8/27/08 Dean's forecast	<u>843,000</u>
	<u>\$12,893,000</u>

PROJECT COST SIGNIFICANT DIFFERENCES

Excluding un-quantified open items the cost estimates increased as follows:

- > estimate at 8/7/07 \$11,108,585
- > estimate at 10/30/08 12,575,216
- > increase **\$ 1,466,631**
- > significant changes

• Guestroom window wall extension – This will increase the size of guestrooms by 43 square feet, on average (14.3%), resulting in more spacious rooms, higher occupancies and higher room rates, thereby adding significant value to the hotel.	\$ 600,000
• Deferral by Hilton Hotels/Blackstone for south wing proto-type guestroom program	300,000
• Increases in UH deferred maintenance projects	406,778
• Quantifying or deleting open items (net)	325,623
• Scope reductions (net).	<u>(196,951)</u>
• Total difference	<u>\$ 1,435,450</u>
	<u>\$ 31,181</u>

Including the average of un-quantified items, the cost estimates increased as follows:

> estimate at 8/7/07	\$12,030,171
> estimate at 10/30/08	<u>12,825,216</u>
> increase	<u>\$ 795,045</u>

Dean John Bowen and Development Officer Jon Schultz have implemented a targeted campaign among leaders in the lodging industry to raise an additional \$600,000 to replace the surplus reserve funds being used for the guestroom window wall extension.

Dean Bowen and Jon Schultz are working with the Hospitality Financial and Technology Professionals who are very interested in supporting the development of the south wing proto-type guestrooms.

All conceptual design work has been completed for the renovation.

Construction documents for the model guestroom are finished. The model room should be installed by the end of January 2009.

We believe that all estimated costs associated with this project are realistic and, as such, we do not anticipate further significant changes in the budget. The latest project estimate by Cumming Corporation considers all conceptual design work. There is sufficient room in the scope of the project to offset further increases by deferrals or eliminations. Examples of these adjustments are to defer the proto-type rooms program (\$300,000) and to defer the Conrad Hilton Ballroom (\$350,000). However, the project team, including the architect, does not feel that such major adjustments as these will be necessary.

I understand from Jon Schultz that you will add this report to the December Agenda for the Board of Regents. Please advise what additional information you will require and the role that you want me and Jon to play in the presentation.

Thank you for your assistance and guidance.