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ACTION UNDER PRESIDENT'S AUTHORITY- APPROVAL OF AMENDMENT TO THE CAPITAL IMPROVEMENT PROGRAM AND EXTERNAL FINANCING FOR DAVIS CAMPUS 2005-06 DEFERRED MAINTENANCE AND CAPITAL RENEWAL PROGRAM

It is recommended that:

Pursuant to Standing Order 100.4(q)

- (1) The President amend the 2005-06 Budget for Capital Improvements and the Capital Improvement Program to include the following project:

Davis: 2005-06 Deferred Maintenance and Capital Renewal Program -- preliminary plans, working drawings, and construction - - \$6,100,000 to be funded from external financing.

Pursuant to Standing Order 100.4(nn)

- (2) The President be authorized to obtain financing not to exceed \$6,100,000 prior to awarding construction contracts:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period;
 - b. Repayment of financing shall be from the Davis campus share of Federal Indirect cost recovery deposited to Fund 19933, which shall be in amounts sufficient to pay debt service and to meet the related financing requirements; and
 - c. The general credit of The Regents shall not be pledged.
- (3) The Officers of The Regents provide certification that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
- (4) The Officers of The Regents execute all documents in connection with the above.

DESCRIPTION

This item requests approval of the Davis campus 2005-06 Deferred Maintenance and Capital Renewal Program in the amount of \$6,100,000, to be funded from external financing. The projects included in this program address high priority renewal needs in buildings that house programs eligible for State funding. Continuing the program that addresses the existing backlog of deferred maintenance and the periodic need to renew facilities is one of the University's highest priorities.

A summary of the projects proposed for the Davis campus program and their estimated cost is included as Attachment 1. These projects involve deferred maintenance work that will be carried out in conjunction with other building renovation, building system renewal, and building code compliance projects. The deferred maintenance work in Kerr Hall, Hoagland Hall, and Robbins Hall would be scheduled to take advantage of the opportunity to replace and repair building systems, while large portions of the facilities are undergoing renovation. The deferred maintenance work in these three buildings would replace fire alarm systems and also correct other fire and life safety deficiencies, replace or repair inadequate heating, ventilation, and air conditioning (HVAC) systems, and address shortcomings in other lighting and electrical systems. The entire acid waste piping systems would be replaced in the veterinary Medicine Teaching Hospital and Tupper Hall, the fire alarm system would be replaced in Veihmeyer Hall, and a boiler, chiller, and cooling tower would be replaced in the Animal Research Station. All of the deferred maintenance projects are Priority 1 level and have a useful life of 15 years or more.

Background

In February 1998, The Regents approved a new multi-year funding approach to address the need for regular, systematic renewal of existing facilities and to reduce the backlog of deferred maintenance projects. This approach used external financing, with repayment of bonds to be made from a portion of the increase over the prior year's UC General Funds, specifically nonresident tuition funds. The amount of funding to be provided for debt service on an annual basis was limited to no more than 5 percent of the annual increase in UC and State General Funds. This new approach provided a significant level of funding for the systemwide program for the next several years, emphasizing a systems renewal rather than a repair approach in addressing the deferred maintenance backlog.

In the initial program year, 1998-99, this bond-financed program provided \$64.8 million for the systemwide Deferred Maintenance and Capital Renewal Program. Additional debt was authorized by The Regents for the program in June 1999 (\$64 million), in May 2000 (\$66 million), and in May 2001 (\$45 million), resulting in an infusion of almost \$240 million for capital renewal over a four-year period. A total of approximately \$22 million per year in UC General Funds will be used to pay debt service for all four years. Only high priority projects with long-term benefits (minimum useful life of 15 years) were eligible to be funded through this mechanism.

In 2002-03, the systemwide debt-financing program for capital renewal and deferred maintenance was suspended because University funds used to support debt financing had to be redirected to offset State funding cuts. However, in order to allow individual campuses to continue to address their capital renewal and deferred maintenance needs, the University initiated a new funding program to

authorize campuses to finance long-term debt for this program by pledging a portion of their UC General Fund income to fund high priority projects. Several campus debt-financed programs were approved during the four-year period 2002-03 to 2005-06, generating approximately \$71 million in additional bond funding for this purpose.

The University is committed to continuing this program. This proposal would allow the Davis campus to direct a portion of its share of Federal Indirect Cost Recovery deposited to Fund 19933 (known internally as University General Funds) to provide long-term financing for its Capital Renewal and Deferred Maintenance Program.

Environmental Classification

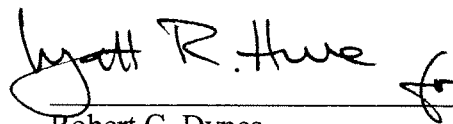
In accordance with the California Environmental Quality Act and University Guidelines for implementation of CEQA, as amended, the proposed projects will have the appropriate CEQA documentation at the time of design approval.

Financial Feasibility

The total cost of the Davis campus 2005-06 Deferred Maintenance and Facilities Renewal Program would be \$6,100,000 to be supported with external financing. A summary of the financial feasibility analysis is presented in Attachment 2. The total cost of the projects listed on Attachment 1 is \$6,436,000. These projects would be implemented in priority order, and, in the event the campus receives favorable bids, the additional work amounting to \$336,000 would be incorporated into the funding program.

The Davis campus would use a portion of its share of the Federal Indirect Cost Recovery deposited to the campus' University General Funds as the pledged source of repayment for external financing. The projected annual debt service for the proposed program would be approximately \$618,000, calculated at an interest rate of 5.75 percent for 15 years. The total annual debt service, including a previously approved project, would be approximately \$710,000, resulting in a debt-service coverage ratio of 12.88.

Approved by:



Robert C. Dynes
President of the University

9.1.05
Date

Attachments

**SUMMARY OF PROJECTS
DAVIS CAMPUS 2005-06 DEFERRED MAINTENANCE AND FACILITY RENEWAL
PROGRAM**

Campus Priority	CAAN		Project Cost	Total
1	4302	Kerr Hall		
		Replace fire alarm system	113,000	
		Fire sprinkler System	532,000	
		Replace corridor lighting	80,000	
		Replace defective electrical panels	36,000	
			761,000	761,000
2	3607	Hoagland Hall		
		Replace fire alarm system	654,000	
		Fire sprinkler system in basement	167,000	
		Repair and replace HVAC	656,000	
			1,477,000	2,238,000
3	3237	Robbins Hall		
		Replace fire alarm system	476,000	
		Fire sprinkler system in basement	483,000	
		Repair and replace HVAC system	1,035,000	
			1,994,000	4,232,000
4	4267	Veterinary Medicine Teaching Hospital		
		Replace entire acid waste piping system	1,111,000	5,343,000
5	4427	Tupper Hall		
		Replace entire acid waste piping system	771,000	6,114,000
6	3458	Veihmeyer Hall		
		Replace fire alarm system	217,000	6,331,000
7	3840	Animal Research Station J1		
		Replace boiler and chiller	105,000	6,346,000
		Total		\$6,436,000

ATTACHMENT 2

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title: 2005-06 Davis Campus Deferred Maintenance and Facility Renewal Program

Total Estimated Program Cost \$6,100,000

Proposed Source of Funding

External financing \$6,100,000

Proposed Financing Terms

Interest rate: 5.75 %

Duration: 15 years

Pledged Source of Repayment (FY 2006-07):

Federal Indirect Cost Recovery
Campus' allocation of Fund 19933 (actual 2005-06) \$ 9,158,000

Projected Annual Debt Service (proposed project) \$ 618,000
Approved Annual Debt Service (Hunt Hall) \$ 92,000
Total Annual Expense \$ 710,000

Debt Service Coverage 12.88 X