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January 29, 2007

**ACTION UNDER PRESIDENT'S AUTHORITY--AMENDMENT OF THE BUDGET
FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM
AND APPROVAL OF EXTERNAL FINANCING FOR SOUTH ENTRY UTILITIES
PHASE 1, DAVIS CAMPUS**

It is recommended that:

Pursuant to Standing Order 100.4(q)

- (1) The President amend the 2006-07 Budget for Capital Improvements and the Capital Improvement Program to include the following project:

Davis: South Entry Utilities Phase 1 – preliminary plans, working drawings, and construction \$8,028,000 to be funded from campus funds (\$493,000) and external financing (\$7,535,000).

Pursuant to Bylaw 21.4(d) and Standing Order 100.4 (nn)

- (2) The President approve and authorize external financing not to exceed \$7,535,000 to finance the South Entry Utilities Phase 1 project, subject to the following conditions:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
 - b. Repayment of the external financing shall be from the Davis campus share of Opportunity Funds.
 - c. The general credit of The Regents shall not be pledged.
- (3) The Officers of the Regents be authorized to provide certification to the lender 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 be authorized to execute all documents necessary in connection with the above.

A Key to abbreviations and the project description are attached.

KEY
Capital Improvement Program Abbreviations

S	Studies
P	Preliminary Plans
W	Working Drawings
C	Construction
E	Equipment
-	State Funds (no abbreviation)
F	Federal Funds
G	Gifts
HR	Hospital Reserve Funds
I	California Institutes for Science and Innovation
LB	Bank Loans or Bonds (External Financing includes Garamendi, Bonds, Standby, Interim and Bank Loans)
LR	Regents' Loans (Internal Loans)
N	Reserves other than University Registration Fee (Housing and Parking Reserves)
R	University Registration Fee Reserves
U	Regents' Appropriations (Presidents' Funds, Education Fund)
X	Campus funds
CCI	California Construction Cost Index
EPI	Equipment Price Index

Budget for Capital Improvements
and The Capital Improvement Program
Scheduled for
Regents' Allocation, Loans, Income Reserves,
University Registration Fee Reserves, Gift Funds,
And Miscellaneous Funds

Campus and Project Title (<u>Total Cost</u>)	Proposed <u>2006-07</u>
<u>Davis</u>	
South Entry Utilities Phase 1	P \$ 237,000 X
	W \$ 256,000 X
	C \$ 7,535,000 LB
(\$8,028,000)	

DESCRIPTION

The Davis campus requests project approval and financing approval for the South Entry Utilities Phase 1 project at a cost of \$8,028,000. The project would be funded from campus funds of \$493,000 and external financing of \$7,535,000 to be repaid from Opportunity Funds. The project would upgrade and extend utilities to serve the newly developed South Entry District and improve the campus steam and chilled water distribution system servicing other parts of the campus.

Background

For several years, the campus Long Range Development Plan has included development of the South Entry District of the campus as a new welcoming entry to the campus from Interstate 80. The district is intended to announce the campus to the regional community, provide sites for facilities that have an important role in welcoming people to the campus and the opportunity for involvement in campus programs. The initial development in the district was the Alumni and Visitor Center that was completed in 1993. Subsequent developments in the district include the Robert and Margarit Mondavi Center for the Performing Arts and the South Entry District Parking Structure. Planned new facilities include the Hotel and Conference Center, Graduate School of Management Building, and the Robert Mondavi Institute (RMI) for Wine and Food Science consisting of the Academic Building, Winery, and Brewing Laboratory.

The existing facilities in the District were constructed with minimal investment in the basic infrastructure needed to serve these facilities. In evaluating the infrastructure that would be needed to serve the additional projects to be located in the District, and considering future development beyond the current planned projects, the campus concluded that a significant investment in infrastructure would be required. This investment would address needs associated with domestic water, utility water, storm drainage, wastewater, electrical service,

telecommunications services, steam and chilled water. Some adjustments to roadways are also required. In recognition of this needed investment, the campus has included off-site utility funding in the state-funded Robert Mondavi Institute project and identified funding for infrastructure for each of the projects that are currently planned to be sited in the district.

While some portion of the infrastructure needs of the district can be funded from the capital budgets for projects to be located in the district, there are improvements to the overall utility system that are needed not only to serve the district but also to upgrade elements of the system that serve the campus in general. The following are four components of costs that were used to determine the fair-share costs to be allocated to individual projects and to the campus:

- **Basic Utilities**—The campus determined what would be the most appropriate capacity to install for basic utilities (domestic water, utility water, storm drainage wastewater, electrical service, and telecommunications) to serve the district. The calculation of capacity to be installed also took into account the likely future development in the district over the next several years.
- **Steam and Chilled Water for new demand**—The RMI is the only laboratory project in the district. Planning for the South Entry Utilities Phase 1 considered the appropriate charge to be assessed for steam and chilled water service to the projects to be served.
- **Steam and Chilled Water for System Optimization**—When considering what size of piping to install, design engineers considered the appropriate size of lines to optimize system performance and future needs. Thus, the portion of the steam and chilled water costs not associated with new demand would be a campus cost.
- **Roadways**—The Hotel and Conference Center would require extension of the roadways in the district and these costs have been allocated to that project. Other improvements are also needed to manage traffic effectively, which would appropriately be funded from campus funds.

Those costs that could not be allocated to the projects in the district, because the benefits of the improvement extend to the entire campus system, were considered to be a campus-funded responsibility. For example, the steam and chilled water supply and return lines located in La Rue Road would need to be increased in size to not only serve the RMI project, but also provide adequate supply to future state-funded buildings outside the district including the Law School Expansion and Physical Sciences Expansion. While the campus could extend the cost allocation strategy to these projects as well, the capital budgets for these projects were established some time ago and did not consider the off-site utility improvements that would be required to serve the new facilities. Therefore, the campus has identified the work that would be needed to meet these campuswide needs and has proposed campus funds to accomplish the work.

The campus proceeded with the project based on the principles noted above, using the budget estimate that had been established for all needed work. The working drawing phase for the South Entry Utilities Phase 1 project was recently completed. The cost estimate based on the working drawings was significantly higher than the budget that had been established for the

project. The cost of piping and other key materials have escalated significantly since the time the project budget was established. Several other elements of the project budget were underestimated at the time the budget was prepared. A revised cost distribution has been established based on the revised cost estimate.

Project Description

The campus-funded South Entry Utilities Phase 1 project would fund the following work in the South Entry District:

- Steam and Chilled Water distribution lines sized to accommodate current and future needs of the campus.
- The additional cost for Steam and Chilled Water distribution lines to the RMI Academic Building that cannot be funded from that project budget. The recent cost estimate was not received in time to adjust the RMI project contribution. Therefore, the campus would fund this increase as part of the South Entry Utilities Phase 1 project rather than seek augmentation of the RMI project.
- The portion of basic utilities that provide for future expansion within the district and; therefore, should not be allocated to existing approved/planned projects in the district.
- Roadway improvements that address general circulation needs rather than access to a specific project. In addition, costs associated with construction of temporary detours and signage would be funded by the campus.

Project Element	Cost
Steam and Chilled Water system work	\$4,430,000
Steam and Chilled Water for RMI academic building	975,000
Basic Utilities, capacity for future projects	1,272,000
Roadways, general improvements	599,000
Other work, (traffic detours, signage)	342,000
Subtotal Construction Cost (PWC)	\$7,618,000
Interest During Construction	410,000
Total Project Costs	\$8,028,000

Construction is anticipated to begin in January 2007, with completion anticipated in October 2008 and it would serve the RMI Academic Building, which is currently scheduled to complete construction, commissioning and move-in in summer 2008. Certain components of the South Entry Utilities Phase 1 project (steam and chilled water systems) would need to be completed prior to occupancy of the RMI Academic Building.

CEQA Classification

The environmental impact of improvements in the proposed project was evaluated as part of the Robert Mondavi Institute for Wine and Food Science. The Robert Mondavi Institute was evaluated in the 2003 Long Range Development Plan Environmental Impact Report (LRDP EIR). The 2003 LRDP EIR was certified by The Regents in November 2003 (State Clearinghouse #2002102092). The Robert Mondavi Institute design was approved by The Regents in February 2004 based on the previously certified 2003 LRDP EIR. No additional CEQA Review is required. Applicable mitigation measures from the 2003 LRDP EIR will be implemented with the proposed construction of the project.

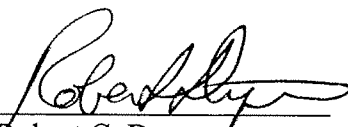
Financial Feasibility

The total project cost of \$8,028,000 would be funded from campus funds (\$493,000) and external financing (\$7,535,000).

Based on long-term debt of \$7,535,000 amortized over 30 years at 6.125 percent interest, the estimated average annual debt service would be \$ 555,000. The campus has pledged its share of the University Opportunity Fund as a source of repayment. Opportunity funds are a portion of the indirect costs recovered from federal contracts and grants. The University Opportunity Fund Debt Repayment Policy requires that the campus meet two financial tests: (1) that the amount pledged for debt payment shall not exceed 65 percent of the campus's total Opportunity Funds allocated each year, and (2) that no more than 33 percent of the campus's total Opportunity Funds allocated each year are used for debt service. In fiscal year 2010-11, the second full year of occupancy and first full year of principal and interest for the project, 64 percent of Opportunity Funds will be pledged for debt service. In compliance with Regents' policy, all funds necessary to complete construction will be on hand prior to issuing the project for bid.

Additional financial details are provided on Attachment 2.

Approved by:


Robert C. Dynes
President of the University

1/31/07
Date

Attachments

**PROJECT STATISTICS
SOUTH ENTRY UTILITIES PHASE 1
CAPITAL IMPROVEMENT BUDGET
DAVIS CAMPUS
CCCI 5120**

<u>Cost Category</u>	<u>Amount</u>	<u>% of Total</u>
Site Clearance	90,000	1.1%
Building	-	-
Exterior Utilities	6,000,000	74.7%
Site Development	418,000	5.2%
A/E Fees	400,000	5.0%
Campus Administration	250,000	3.1%
Surveys & Tests	80,000	1.0%
Special Items ^(a)	490,000	6.1%
Contingency	300,000	3.7%
Total Project	\$ 8,028,000	100.%

(a) Special Items include design reviewers, cost estimator, environmental study, seismic review, value engineering, wind tunnel testing, and other special consultants, totaling \$80,000, and interest during construction totaling \$410,000.

Project Title: South Entry Utilities Phase 1

Total Estimated Project Cost: \$8,028,000

Proposed Sources of Funding:

External Financing	\$ 7,535,000
Cash Contribution, Campus Funds	<u>\$ 493,000</u>
Total	\$ 8,028,000

Projected Financing Terms:

Interest rate: 6.125%
Duration: 30 years

Opportunity Fund Information (2010-11):¹

Estimated Annual Revenue	
Pre-Off-the-Top	\$ 6,753,000
Opportunity Fund Generated	<u>\$20,021,000</u>
Total Estimated Annual Revenue	\$26,774,000

Estimated Annual Debt Service	
Existing Debt	\$ 9,946,000
Potential Debt Service	\$ 555,000
Garamendi Projects	<u>\$ 6,753,000</u>
Total Estimated Annual Expenses	\$17,254,000

% Opportunity Fund Pledged for debt (policy limit 65%) 64%

Debt Service Coverage 1.55X

1) First full year of principal and interest payments on the project.