



OFFICE OF THE PRESIDENT

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January 18, 2008

**ACTION UNDER PRESIDENT'S AUTHORITY - AMENDMENT OF THE BUDGET  
FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM  
AND APPROVAL OF EXTERNAL FINANCING FOR KERR HALL IMPROVEMENTS,  
DAVIS CAMPUS**

It is recommended that:

**Pursuant to Standing Order 100.4(q)**

- (1) The President amend the 2007-08 Budget for Capital Improvements and the Capital Improvement Program to include the following project:

From: Davis: Kerr Hall Improvements - preliminary plans, working drawings, and construction - \$4,601,000 to be funded from campus funds (\$3,840,000) and external financing (\$761,000).

To: Davis: Kerr Hall Improvements - preliminary plans, working drawings, and construction - \$6,911,000 to be funded from external financing.

**Pursuant to Standing Order 100.4(nn)**

- (2) The President be authorized to obtain financing not to exceed \$5,511,000 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. As long as the debt is outstanding, the Davis campus' share of the Federal Indirect Cost Recovery deposited to Fund 19933 shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing; and
  - c. The general credit of The Regents shall not be pledged.

- (3) The President be authorized to obtain financing not to exceed \$1,400,000 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. As long as debt is outstanding, the Davis campus' share of the University Education Fund shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing; and
  - c. The general credit of The Regents shall not be pledged.
- (4) 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.
- (5) The Officers of The Regents execute all documents in connection with the above.

A Key to the abbreviations and the project description are attached.

(Attachments)

**KEY**  
**Capital Improvement Program Abbreviations**

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

Budget for Capital Improvements and  
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> )	<u>Prior</u> <u>Approval</u>			<u>Proposed</u> <u>2007-08</u>		
<u>Davis</u>						
Kerr Hall Improvements	P	\$240,000	X	P	\$240,000	LB
	W	\$280,000	X	W	\$330,000	LB
	C	\$3,320,000	X	C	<u>\$6,341,000</u>	LB
	C	<u>\$761,000</u>	LB			
		\$4,601,000			\$6,911,000	

**DESCRIPTION**

In August 2006, the President approved the 2005-06 Deferred Maintenance and Capital Renewal Program on the Davis campus at a total cost of \$6,100,000 funded from external financing, which included four separate projects. One of the projects was Kerr Hall Improvements of \$761,000. Concurrently, the Chancellor approved \$3,840,000 of campus funds towards the project. This brought the total cost to \$4,601,000 for the Kerr Improvements project.

During the design phase, it was discovered the building needed seismic corrections at a cost of approximately \$1,400,000. Integrating the seismic corrections into the project delayed the schedule over one year. During this time, the campus completed the seismic corrections design, expanded the accessibility improvements scope, and added deferred maintenance related to the HVAC system which increased the total project cost to \$6,911,000.

***Background***

The Kerr Hall Improvements project will renovate and renew the 54,923 gsf office building constructed in 1969. Recent completion of the Mathematical Sciences Building vacating the top four floors of Kerr Hall creates an opportunity to perform this work while the building is vacant. The proposed project will renew building systems, correct building code deficiencies, and include a modest level of interior improvements. The project will provide space for the departments of Political Science, Communications, and Linguistics in Kerr Hall.

***Project Description***

The project renews or replaces a number of building components or systems in this 38-year-old building that are obsolete and/or have reached the end of their useful life. The improvements will increase building efficiency, extend functionality, and provide infrastructure to better serve the building. The project includes a new fire sprinkler system, replacement of the existing fire

alarm system, new electric distribution panels, and inefficient corridor and office lighting. It will also overhaul existing fan coil units and install new central HVAC controls, new building chilled water and steam distribution pumps, and replace aged chilled water expansion joints.

The project corrects accessibility deficiencies and includes installation of new door hardware, drinking fountains, signage, and stairwell railings. Telecommunications system improvements add new distribution capacity and functionality that upgrade the system to current campus standards. The project renovates two existing ground floor restrooms and constructs five new ADA-compliant restrooms on floors that currently have only single-sex facilities. In addition, this project includes seismic corrections to comply with University standards.

Construction is anticipated in February 2008 with completion by March 2009.

### ***Sustainability***

This project will comply with the UC Policy on Sustainable Practices. To the fullest extent possible the project will include sustainable measures in accordance with the Davis Campus Green Building Baseline and consistent with budgetary constraints and programmatic requirements.

### ***CEQA Classification***

In compliance with State guidelines and University of California procedures for the implementation of the California Environmental Quality Act (CEQA), it has been determined that the project is generally exempt from CEQA under Title 14 California Administrative Code Section 15061 (b)(2) and categorically exempt under Section 15301 (Existing Facilities).

### ***Deferred Maintenance and Facility Renewal Program***

In February 1998, The Regents approved external financing with repayment of bonds made from a portion of the increase over the prior year's UC General Funds, specifically nonresident tuition funds, to address the need for regular systematic renewal of existing facilities and to reduce the backlog of deferred maintenance projects. This bond-financed program resulted in an infusion of almost \$240 million for capital renewal over a four-year period.

In 2002-03, the systemwide debt financing program for capital renewal and deferred maintenance was suspended because the University funds used to support debt financing needed 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 campuses have participated in this program during the three-year period 2002-03 to 2006-07, generating approximately \$140 million in bond funding for this purpose.

The University is committed to continuing the deferred maintenance and capital renewal program. This proposal would allow the Davis campus to direct a portion of their share of

Federal Indirect Cost Recovery deposited to Fund 19933 (known internally as part of the University General Funds) to provide long-term financing for its deferred maintenance and facilities renewal program.

***Financial Feasibility***

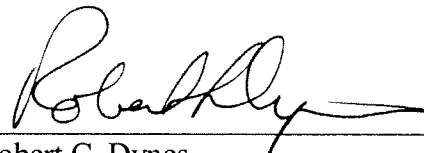
The estimated project cost for the Kerr Hall Improvements project is \$6,911,000 to be funded from external financing.

Repayment of \$5,511,000 for deferred maintenance would be from the Davis campus' share of the Federal Indirect Cost Recovery deposited to Fund 19933. As long as the debt is outstanding, the Davis campus' share of the Federal Indirect Cost Recovery deposited to Fund 19933 shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing. The projected annual debt service for the portion of the debt service repaid from Federal Indirect Cost Recovery (Fund 19933) would be approximately \$549,000 calculated at an interest rate of 5.50% for 15 years.

Repayment of \$1,400,000 for seismic corrections would be from the Davis campus' share of the University Education Fund. As long as debt is outstanding, the Davis campus' share of the University Education Fund shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing. The projected annual debt service for the portion of the debt service repaid from the University Education Fund would be approximately \$99,000 calculated at an interest rate of 5.75% for 30 years. The University Education Fund Debt Repayment Policy requires that campuses meet two financial tests: (1) that the amount of projected maximum annual debt payments payable from the campus' Education Fund shall not exceed 65% of the campus's total Education Fund allocated each year and (2) that no more than 33% of the campus's total Education Fund allocated each year are used for debt service payment. The Davis campus meets both tests. In fiscal year 2010-11, the first full year of principal and interest for the project, 5.8% of the campus's total Education Fund allocation would be applied to debt service. The external financing will be paid from specific revenue sources specified in the external financing documents; therefore, the general credit of The Regents will not be pledged.

A summary of the financial feasibility analysis is presented in Attachment 2.

Approved by:



Robert C. Dynes  
President of the University

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Date

**PROJECT STATISTICS  
KERR HALL IMPROVEMENTS  
CAPITAL IMPROVEMENT BUDGET  
DAVIS CAMPUS  
CCCI 5129**

<u>Cost Category</u>	Amount	<u>% of Total</u>
Site Clearance		
Building	\$5,200,000	75.2%
Exterior Utilities		
Site Development		
Fees	\$575,000	8.3
A&E/PP&C	\$250,000	3.6
Surveys, Tests, Plans	\$100,000	1.5
Special Items *	\$526,000	7.7
Contingency	\$260,000	3.8
Total P-W-C	<u>\$6,911,000</u>	<u>100%</u>
Group 2 & 3 Equipment		
Total Project Cost	<u>\$6,911,000</u>	

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**Statistics**

Gross Square Feet (GSF) **	54,923
Assignable Square Feet (ASF) **	31,853
Ratio ASF/GSF (%)	58%
Building Cost /GSF	\$ 95
Building Cost /ASF	\$163

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\* Special items include value engineering and constructability reviews; hazardous materials survey/testing; agency review; special consultant-communication resources; and Capital Asset Accounting: \$221,000; and interest during construction: \$305,000 totaling \$526,000.

\*\* Gross square feet (GSF) is the total area, including usable area, stairways, and space occupied by the structure itself. Assignable square feet (ASF) are the net usable area.

ATTACHMENT 2

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

**Project Title: Kerr Hall Improvements**

**Total Estimated Project Cost** \$ 6,911,000

**Proposed Sources of Funding**

External Funding \$ 6,911,000

Campus' Allocation of the Federal Indirect Cost Recovery deposited to Fund 19933 (\$5,511,000)  
Davis campus' share of the University Education Fund (\$1,400,000)

**Proposed Financing Terms**

<u>Fund 19933:</u>	<u>University Education Fund:</u>
Interest Rate: 5.50%	Interest Rate: 5.75%
Duration: 15 Years	Duration: 30 years

**Pledged Source of Repayment – Fund 19933:**

Federal Indirect Cost Recovery	
Campus' allocation of Fund 19933 (actual 2005-06)	\$10,047,860
Projected annual debt service (2008-09)	
Approved annual debt service (2008-09)	\$ 2,251,000
Pending approval (2006-07 Deferred Maintenance program)	\$440,000
Proposed Kerr Hall project	<u>\$ 549,000</u>
Total	\$ 3,240,000
Debt Service Coverage	3.10 X

**Pledged Source of Repayment – University Education Fund:**

Davis Campus Education Fund (2010-11) <sup>(1)</sup>	\$15,607,000
Projected annual debt service (2010-11) <sup>(1)</sup>	
Approved annual debt service	\$806,000
Proposed Kerr Hall project	<u>\$ 99,000</u>
Total	\$905,000
Debt Service Coverage	17.25 X

<sup>(1)</sup> First full year of principal and interest payments for the project.