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ACTION UNDER PRESIDENT'S AUTHORITY--APPROVAL OF EXTERNAL FINANCING FOR THE BERKELEY CAMPUS DEFERRED MAINTENANCE AND FACILITIES RENEWAL PROGRAM

It is recommended that:

Pursuant to Standing Order 100.4(q)

(1) The President amend the 2003-03 Budget for Capital Improvements and the 2002-05 Capital Improvement Program to include the following project:

Berkeley: Deferred Maintenance and Facilities Renewal Program – preliminary plans, working drawings, and construction --$5,350,0000 from external financing.

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

(2) The President be authorized to obtain financing not to exceed $5,350,000 prior to awarding a construction contract:

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 Berkeley campus share of Federal Indirect Cost Recovery allocated as University General Funds; and

c. The general credit of The Regents shall not be pledged.

(3) The Officers of The Regents be authorized to 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 be authorized to execute all documents in connection with the above.

DESCRIPTION

This item requests authorization of $5,350,000 in external financing for the fifth year of the Deferred Maintenance program for the Berkeley campus. These funds are needed to address the priority needs in certain buildings that house programs eligible for state funding, as well as infrastructure that serves buildings that house eligible programs. Project descriptions and a funding summary for the proposed projects are included as Attachment 2. Addressing the deferred maintenance and facilities renewal problem is one of the University's highest priorities.

Background

In February 1998, The Regents approved the first year of a new approach to facilities renewal that would provide significant levels of funding over the next several years. The Regents authorized the Treasurer to sell bonds that provided $64.8 million for deferred maintenance and capital renewal for 1998-99, with repayment of the bonds from a portion ($6 million) of the increase over the prior year's UC general funds, specifically nonresident tuition funds. Only high priority projects with long-term benefits to the University were eligible to be funded through this mechanism. The Regents approved the second year of this program in June 1999, and again authorized the Treasurer to sell bonds that provided an additional $64 million for 1999-2000. As established in the first year, repayment of the bonds will come from $6 million in nonresident tuition funds. The Regents approved the third year of this program in May 2000, and again authorized the Treasurer to sell bonds that provided an additional $66 million for 2000-01. The Regents approved the fourth year of this program in May 2001 authorizing the Treasurer to sell $45 million in bonds. The fourth year of the program was allocated $4 million of nonresident tuition funds. A total of approximately $22 million per year will be used to pay debt service for all four program years.

The Budget Plan for 2002-03 proposed to use $6 million from nonresident tuition to pay for the fifth year of this program. Unfortunately, the state's deteriorating fiscal situation has led to a very different budget for 2002-03 and the University is not authorized to direct nonresident tuition for this use. The University is committed to this program and proposes to allow the Berkeley campus to direct a portion of the campus's share of Federal Indirect Cost Recovery allocated as University General Funds to provide long-term financing for this greatly needed program.

Continuation of the University's Plan

The basic tenets of the University's plan, as first proposed in 1998-99, are:

- University financing would be issued each year over a period of at least five years to fund "Priority 1" deferred maintenance and facilities renewal projects that have a minimum useful life of 15 years.
- The source of funds to be pledged and used for repayment of the debt would be nonresident tuition income. For the first four years, increases in non-resident tuition was pledged. For this fifth year, campuses may pledge the Federal indirect cost recovery deposited to campus University General Funds.

- The amount of funding to be provided for debt service on an annual basis would be limited to no more than 5% of the annual increase in UC and state general funds.

- The amount of funding to be provided for project costs on an annual basis would be influenced by current interest rates at the time of financing, which would determine the amount of principal which a specific debt service payment could support. This applied to the first four years of the program. For this fifth year, campuses may request a specific amount of principal, and the current interest rates at the time of financing will determine the annual funding for debt service.

This program has had a significant impact on reducing the highest priority deferred maintenance projects within the backlog, as well as funding many facilities renewal projects.

Project Description

The Berkeley campus 2002-03 Deferred Maintenance and Facilities Renewal Program consists of 13 projects. Three projects involve deferred maintenance work in conjunction with the seismic upgrade of Hertz Hall. The campus would use the seismic upgrade of Hertz Hall as an opportunity to correct system deficiencies without further program disruptions and inconvenience to its occupants. Other projects proposed for the Program include replacement of old and deteriorated water and steam distribution pipes, elevator systems, roof and building exteriors, and outdated fire alarm systems. Renewal of these subsystems would restore reliability and return the facilities to normal operation. A description of each project and a funding summary is included as Attachment 2.

Environmental Classification

In accordance with the California Environmental Quality Act and University guidelines for the implementation of CEQA, as amended, the proposed projects are classified Categorically Exempt, Class 1 (Existing Facilities).

Financial Feasibility

For the 2002-03 financing, the Berkeley campus will use a portion of its share of the federal indirect cost recovery deposited to campus University General Funds for projected debt service of $542,000, calculated at an interest rate of 5.75% for 15 years. This differs from the first four years of the program, which were funded from nonresident tuition income.

Approved by:

Richard C. Atkinson — 9/3/02

Richard C. Atkinson
President of the University

Date

Attachment

ATTACHMENT 1

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title: 2002-03 Berkeley Campus Deferred Maintenance and Facilities Renewal Program

Total Estimated Program Cost:	$5,350,000
Proposed Source(s) of Funding:	
External financing	$5,350,000

Proposed Financing Terms:

Interest rate: 5.75% Duration: 15 years

Pledged Source of Repayment (FY 2000-01):

Federal Indirect Cost recovery deposited to campus University General Funds	$20,328,000
Projected annual debt service (proposed project)	$542,000
Pledge Ratio	2.7%
Debt Service Coverage	37.5x