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April 15, 2003

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

It is recommended that:

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

- (1) Funding for the 2002-03 Irvine campus Deferred Maintenance and Facilities Renewal Program be approved in amount not to exceed \$7,590,000 from external financing.
- (2) The President be authorized to obtain financing not to exceed \$7,590,000 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 Irvine campus' share of Federal Indirect Cost Recovery deposited to Fund 19933 and shall at all times maintain a minimum debt service coverage ratio of 1.25X ; 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 \$7,590,000 in external financing for the fifth year of the Deferred Maintenance program for the Irvine campus. These funds are needed to address priority 1 needs in Rowland Hall that houses programs eligible for state funding. 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 Irvine campus to direct a portion of the campus' 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 were 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 Irvine campus' 2002-03 Deferred Maintenance and Facilities Renewal Program consists of six projects. The projects involve deferred maintenance work in conjunction with the seismic upgrade of Rowland Hall (School of Physical Sciences). The campus would use the seismic upgrade as an opportunity to correct system deficiencies without further program disruptions and inconvenience to the researchers and professors in Rowland Hall. The following projects would be accomplished in conjunction with the seismic upgrade of the building: HVAC supply and exhaust renewal; roof and flashing replacement; lighting, acoustics, and seating replacement; fire alarm system component replacement; building exterior sealing; and lock cylinder replacement. Renewal of these systems would restore reliability and return the facility to normal operation. A funding summary and a description of each project are included as Attachment 2. All projects are Priority 1 level and have a useful life of 15 years or more.

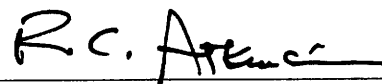
Environmental Classification

In accordance with the California Environmental Quality Act and the 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 Irvine campus will use a portion of its share of the Federal Indirect Cost Recovery deposited to the campus' University General Funds as fund 19933 for the annual debt repayment. This differs from the first four years of the program, which were funded from a portion of the incremental nonresident tuition income generated by the system. The annual debt service of \$768,772 assumes an interest rate of 5.75% for 15 years on a total project cost of \$7,590,000.

Approved by:



Richard C. Atkinson
President of the University

4-16-03

Date

Attachment

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

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

Total Estimated Program Cost: \$7,590,000

Proposed Source(s) of Funding:

External financing \$7,590,000

Proposed Financing Terms:

Interest rate: 5.75% Duration: 15 years

Pledged Source of Repayment (Estimated FY 2002-03):

Federal Indirect Cost Recovery
Campus' allocation of Fund 19933 \$2,937,000

Projected annual debt service (proposed project) \$768,772

Pledge Ratio 26.2 %

Debt Service Coverage 3.82 x

Attachment 2

Summary of Projects Requested for Approval 2002-03 Deferred Maintenance and Facility Renewal Program - Irvine

Priority	CAAN	Building Name / Infrastructure System	Project Name	Project Cost			Total Cost
				Bond	General (State)	Other	
1	9100	Rowland Hall	Replace HVAC system	\$ 6,300,000	\$ -	\$ -	\$ 6,300,000
2	9100	Rowland Hall	Replace roof and flashings	\$ 456,000	\$ -	\$ -	\$ 456,000
3	9100	Rowland Hall	Replace lighting, acoustics, & seating	\$ 282,000	\$ -	\$ -	\$ 282,000
4	9100	Rowland Hall	Replace fire alarm	\$ 69,000	\$ -	\$ -	\$ 69,000
5	9100	Rowland Hall	Seal building exterior	\$ 165,000	\$ -	\$ -	\$ 165,000
6	9100	Rowland Hall	Replace lock cylinders	\$ 318,000	\$ -	\$ -	\$ 318,000
Total				\$ 7,590,000	\$ -	\$ -	\$ 7,590,000