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June 14, 2002

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

It is recommended that:

Pursuant to Standing Order 100.4(q)

- (1) The President amend the 2001-02 Budget for Capital Improvements and the 2001-04 Capital Improvement Program to include the following project:

San Francisco: Deferred Maintenance and Facilities Renewal Program - preliminary plans, working drawings, and construction -- \$9,400,000, total project cost to be funded 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 \$9,400,000 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 San Francisco campus share of Federal Indirect Cost Recovery deposited to Fund 19933; 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 \$9,400,000 in external financing for the fifth year of the Deferred Maintenance program for the San Francisco campus. These funds are needed to renew the waterproofing and structural integrity of the window wall system for the Health Sciences Instruction and Research (HSIR) East Tower. The project scope involves removing and replacing some windows, replacing window frames, and modifications of the window wall base and replacement of some existing window glazing with a silicone gasket system installed over existing trusses. The windows will be replaced with code compliant tempered glass. The HSIR is one of three main laboratory buildings occupied by the School of Medicine on the Parnassus campus and houses programs eligible for state funding. Addressing the deferred maintenance and facilities renewal problem is one of the University's highest priorities.

Background

The 16-story HSIR East Tower was constructed in 1966 and comprises approximately 206,000 gsf. The facility is characterized by a vast window wall system which, over the last 10 years, has experienced an increasing frequency of water intrusion. Due to age of the facility and environmental effects of San Francisco's damp climate, moisture penetration has caused severe corrosion of the window wall system and spalling of the concrete at the building overhangs. The deterioration allows moisture to infiltrate the facility and has repeatedly interrupted research activities and caused secondary water damage to the building. This project was scheduled to be included in the fifth year of the University's Deferred Maintenance program.

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 are 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 2000-2001.

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 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 its share of Federal Indirect Cost Recovery deposited to Fund 19933 (known internally 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:

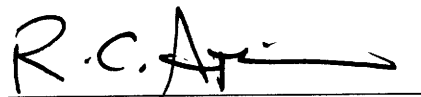
- University financing would be issued each year over a period of at least five years to fund "Priority 1" deferred maintenance and facilities renewal projects that have a minimum useful life of 15 years.
- The source of funds to be pledged and used for repayment of the debt would be nonresident tuition 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 program has had a significant impact on reducing the highest priority deferred maintenance projects within the backlog, as well as to fund many facilities renewal projects. San Francisco is the first campus to submit deferred maintenance plans that would utilize the fund source described above. Additional plans will be submitted for approval as they are received.

Financial Feasibility

For the 2002-03 financing, the campus will use its share of the \$27,125,227 federal indirect cost recovery deposited to campus University General Funds for projected debt service of \$952,103 calculated at an interest rate of 5.75% for 15 years. This differs from the first four years of the program which was funded from nonresident tuition income in 1998-99, 1999-00, 2000-01, and 2001-02, for a total of approximately \$22 million per year will be used to pay debt service for the first four years.

Approved by:

Handwritten signature of Richard C. Atkinson in black ink, consisting of the initials 'R.C.' followed by a stylized 'A' and a horizontal line extending to the right.

Richard C. Atkinson
President of the University

6/14/02

Date

Attachment

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

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

Total Estimated Program Cost: \$9,400,000

Proposed Source(s) of Funding:

External financing \$9,400,000

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 \$27,125,277

Projected annual debt service (proposed project) \$952,103

Pledge Ratio 3.51%

Debt Service Coverage 28.5x

June 2002

**University of California
2002-2003 Deferred Maintenance and Facility Renewal Program
Projects Eligible for Debt-Financed Funding**

Campus: UC San Francisco

Campus-Ranked Priority: 1

Project Title: Health Sciences Instruction and Researchn (HSIR), East Tower - Window Wall Renewal

Project Description

The project scope involves removal and replacement of windows, wall glazing systems, and modifications to the existing wall system to permit the installation of silicone gasket system and replacement tempered glass. Deteriorated concrete surfaces will be patched and refinished to original condition.

Useful Life of Improvement: 25 Years

Priority 1

The 16-story HSIR East Tower was constructed in 1966 and comprises approximately 206,000 gsf. The facility is characterized by a vast window wall system which, over the last 10 years, has experienced an increasing frequency of water intrusion. Due to age of the facility and environmental effects of San Francisco's damp climate, moisture penetration has caused severe corrosion of the window wall system and spalling of the concrete at the building overhangs. The deterioration allows moisture to infiltrate the facility and has repeatedly interrupted research activities and caused secondary water damage to the building. This project will stop the accelerated deterioration of the facility.

State-Supported Facility Name:

Facility Name: HSIR, East Tower **CAAN:** 3008

Amount of State-Eligible Space:100% **Age of the Facility:** 36 Years

Project Budget and Deferred Maintenance Status

Total Budget	\$9,400,000	System Status	Yes/No
Debt-Financed	\$9,400,000	Is the system in deferred maintenance status?	Yes
State General Funds		Will this work remove it from the DM back log list?	Yes
Other Funds			