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ACTION UNDER PRESIDENT'S AUTHORITY--AMENDMENT OF EXTERNAL FINANCING FOR INDUSTRIAL BUILDING (MIRAMAR WAREHOUSE), SAN DIEGO CAMPUS

It is recommended that:

Pursuant to Standing Order 100.4(gg) and Standing Order 100.4(nn)

The financing action approved by The Regents in July 1990 for Miramar Warehouse, San Diego campus, be amended as follows, it being understood that the rest of the action remains unchanged:

- (1) The President be authorized to obtain external financing not to exceed \$9,380,000 to refinance the purchase of the property, subject to the following conditions:
 - a. Repayment of tax exempt financing shall be from the rental income from the Bookstore and the San Diego campus' share of the University Opportunity Fund;
 - b. Repayment of taxable financing shall be from the lease income from the property and the San Diego campus' share of the University Opportunity Fund; and
 - c. The general credit of The Regents shall not be pledged.
- (2) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents on the tax exempt debt is excluded from gross income for purposes of federal income taxation under existing law.
- (3) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

DESCRIPTION

The San Diego campus is seeking a reduction in the amount of financing and a change in the source of repayment in order to refinance the purchase of the Industrial Building (Miramar Warehouse). The financing will be bifurcated into a tax exempt portion for the space occupied by the campus and a taxable portion for the space occupied by a commercial tenant or tenants.

Background

In December 1988, under emergency authority, the President approved a lease between The Regents and Miramar Distribution Center for 55,155 square feet of office and storage space at the Miramar Distribution Center at 7835 Trade Street, San Diego, for use by the San Diego campus. The lease included an option to purchase the building containing the leased premises, together with 8 acres of land including parking.

In July 1990, The Regents approved the purchase of the real property consisting of 8 acres of land, a one-story industrial building containing 168,000 gsf, 203 parking spaces, together with certain personal property. The price of the purchase was \$11,200,000 plus closing costs and improvements in the amount of \$400,000, for a total cost of \$11,600,000. Repayment of the debt was to be from the gross lease income of the real property and from revenues of the campus Bookstore operations. In the event the revenues were insufficient, repayment of debt was to be from Chancellor's discretionary funds.

Problem Statement

At the time of the acquisition, the campus occupied approximately 33% of the space, with the remainder leased to a private tenant. The campus plan was to eventually use 100% of the building for campus use as the private tenant was displaced. The purchase was originally financed through a taxable bank loan due to the private use related to the commercial tenant with the understanding that once fully occupied by the campus, it would be eligible for long term tax exempt financing through University bonds. The campus has made principal payments on the loan and the current loan balance is \$9,380,000.

Campus real estate development has extensively analyzed the potential for additional campus tenants and does not see this being likely in the near future because space is primarily for warehouse use and no identified needs exist at this time for this location, which is 8 miles from campus. However, additional campus needs may be identified in the future. Therefore, at this time, the campus would like to obtain long term financing for this property. The campus portion is eligible for tax exempt financing and the taxable portion will be financed with a bank or a private placement.

In the July 1990 item, the campus pledged the gross lease income from the property, the revenues of the Bookstore, and if such sources were insufficient, the unencumbered discretionary funds available to the Chancellor. At this time, for long term financing the discretionary funds of the Chancellor need to be replaced with Opportunity Funds. Opportunity Funds are accepted by the markets as an acceptable source of repayment for University debt.

Project Description

Currently, the campus occupies approximately 64% of the building, about 106,785 square feet. University tenants are the Materiel Management department (66,720 sf), the Campus Bookstore (25,785 sf), and Library Annex (14,280 sf). The bulk of the remainder of the space, 46,363 rentable square feet (rsf), is leased month to month to a private tenant, and 13,940 rsf is available for use by either a private tenant or campus use.

Financial Feasibility

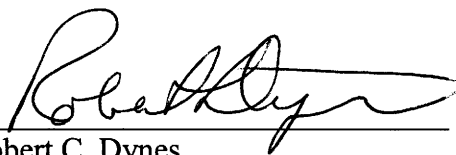
The current loan balance of \$9,380,000 will be refinanced. The final proration between the tax exempt and taxable financing will be determined at the time of financing, should the campus adjust the space usage of the building. For the purpose of the financing feasibility, the current usage prorations have been used.

Approximately 70% of the loan, or \$6,565,000, will be financed on a tax exempt basis amortized over 30 years at 6.125%, for an estimated average annual debt service of \$483,400. Bookstore revenues will contribute \$139,239 for its portion of the space and the remainder will be from the San Diego campus Opportunity Funds.

The remainder of the financing, approximately \$2,815,000, will be financed on a taxable basis amortized over 10 years at 5.75%, for an estimated average annual debt service of \$378,000. Lease income (net of expenses) would contribute \$278,178 annually and the remainder would be paid from campus Opportunity Funds. Should the tenant be displaced, Opportunity Funds will support the full debt service. The campus may choose a longer term financing term (up to 30 years) should a longer financing term be available.

Opportunity Funds are a portion of the indirect cost recovery generated by federal contracts and grants. By University policy, up to 65% of the campus's total Opportunity Funds may be pledged for debt service, but only up to 33% of actual debt service may be paid from Opportunity Funds. In fiscal year 2004-05, 48% of Opportunity Funds are pledged for debt service. Inclusive of this amount for the external financing, the campus is within the prescribed Opportunity Fund pledge and payment limits. Additional financial feasibility information is shown in the Attachment.

Approved:


Robert C. Dynes

Attachment

SUMMARY OF FINANCIAL FEASIBILITY ANALYSIS

Project Title: Industrial Building, Miramar Warehouse, 7835 Trade Street, San Diego

Current Loan Balance: \$ 9,380,000

Proposed Source of Funding:

External Financing \$ 9,380,000

Projected Financing Terms:

Tax Exempt Debt:	Interest Rate: 6.125%	Duration: 30 years
Taxable Debt:	Interest Rate: 5.75%	Duration: 10 years

Financial information for tax exempt portion (FY 2004-05)

Bookstore Revenues Contribution for space rental	\$139,200
Opportunity Funds Allocated to project	<u>\$465,050</u>
Total Estimated Annual Revenue	\$604,250
Revenues Available for Debt Service	\$604,250
Estimated Project Debt Service	\$ 483,400
Debt Service Coverage	1.25X

Financial information for taxable portion (FY 2004-05)

Lease Income	\$ 305,300
Opportunity Funds Allocated to project ¹	<u>\$ 378,000</u>
Total Estimated Annual Revenue	\$ 683,300
Less: Lease Expenses	\$ 27,200
Revenues Available for Debt Service	\$ 656,100
Estimated Project Debt Service	\$ 378,000
Debt Service Coverage	1.74X

¹ To be conservative, the campus has indicated the full amount of opportunity funds to cover debt service in the event the commercial tenant is displaced.

Opportunity Funds Information (FY 2004-05)

Garamendi Debt Service and O&M	\$ 12,153,000
Opportunity Funds Allocation	<u>\$ 33,012,000</u>
Total Estimated Revenue	\$ 45,165,000

Existing Garamendi Debt Service and O&M

Proposed Project Debt Service (from above)	\$ 843,050
Pledged Expenditures – Other Capital Projects	<u>\$ 20,972,500</u>
Total Estimated Annual Expenses	\$ 21,815,550

Percentage of Opportunity Funds Pledged for Debt² 48%

Debt Service Coverage 2.07x

² With approval of the Management School Facility Phase 1 project presented at the May 2004 Regents meeting, the campus is projected to have a pledge ratio of 57.6% in FY 2008-09.