



OFFICE OF THE PRESIDENT

*Robert C. Dynes*  
President

1111 Franklin Street  
Oakland, CA 94607-5200  
Phone: (510) 987-9074  
Fax: (510) 987-9086  
<http://www.ucop.edu>

November 22, 2005

**ACTION UNDER PRESIDENT'S AUTHORITY -- APPROVAL OF AMENDMENT TO THE CAPITAL IMPROVEMENT PROGRAM AND EXTERNAL FINANCING FOR THE SANTA CRUZ CAMPUS 2005-06 DEFERRED MAINTENANCE AND FACILITIES RENEWAL PROGRAM**

It is recommended that:

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

- (1) The President amend the 2005-06 Budget for Capital Improvements and the Capital Improvement Program to include the following project:
- (2) Santa Cruz: 2005-06 Deferred Maintenance and Capital Renewal Program – preliminary plans, working drawings, and construction - - \$3,000,000 to be funded from external financing.

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

- (3) The President be authorized to obtain financing not to exceed \$3,000,000 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. Repayment of financing shall be from the Santa Cruz campus share of Federal Indirect cost recovery deposited to Fund 19933, which shall be in amounts sufficient to pay debt service and to meet the related financing requirements; 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.

## DESCRIPTION

This item requests approval of the Santa Cruz campus 2005-06 Deferred Maintenance and Capital Renewal Program in the amount of \$3,000,000, to be funded from external financing. The projects included in this program address priority needs in buildings that house programs eligible for State funding, as well as infrastructure that serves these buildings. Continuing the program that addresses the existing backlog of deferred maintenance and the periodic need to renew facilities is one of the University's highest priorities.

A summary of the projects proposed for this program and their estimated cost is included as Attachment 1. The program includes projects to replace the roof of the Science and Engineering Library, replace natural gas regulating stations, replace utilities systems in several teaching and research facilities, replace campus electrical system components, and replace fire alarm systems. While approval of financing for the Santa Cruz 2005-06 Deferred Maintenance and Capital Program is requested at a level of \$3,000,000, the campus has defined projects totaling \$4,000,000 to provide flexibility in implementing the program, so that additional projects can be undertaken if savings are achieved in implementing the highest priority projects.

### *Background*

In February 1998, The Regents approved a new multi-year funding approach to address the need for regular, systematic renewal of existing facilities and to reduce the backlog of deferred maintenance projects. This approach used external financing, with repayment of bonds to be made from a portion of the increase over the prior year's UC General Funds, specifically nonresident tuition funds. The amount of funding to be provided for debt service on an annual basis was limited to no more than 5% of the annual increase in UC and State General Funds. This new approach provided a significant level of funding for the systemwide program for the next several years, emphasizing a systems renewal rather than a repair approach in addressing the deferred maintenance backlog.

In the initial program year, 1998-99, this bond-financed program provided \$64.8 million for the systemwide deferred maintenance and capital renewal program. Additional debt was authorized by The Regents for the program in June 1999 (\$64 million), in May 2000 (\$66 million), and in May 2001 (\$45 million), resulting in an infusion of almost \$240 million for capital renewal over a four-year period. A total of approximately \$22 million per year in UC General Funds will be used to pay debt service for all four years. Only high priority projects with long term benefits (minimum useful life of 15 years) were eligible to be funded through this mechanism.

In 2002-03, the systemwide debt financing program for capital renewal and deferred maintenance was suspended because University funds used to support debt financing had 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 campus debt-financed programs were approved during the three-year period 2002-03 to 2004-05, generating \$47 million in bond funding for this purpose.

The University is committed to continuing this program. This proposal would allow the Santa Cruz 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 its capital renewal and deferred maintenance program.

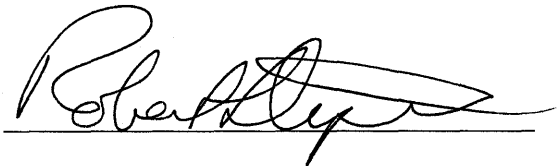
***Environmental Classification***

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

***Financial Feasibility***

The total cost of the Santa Cruz campus 2005-06 Deferred Maintenance and Facilities Renewal Program will be \$3,000,000 to be supported with external financing. A summary of the financial feasibility analysis is presented in Attachment 2. The campus will use its share of the Federal Indirect Cost recovery deposited to campus University General Funds as the pledged source of repayment for the external financing. The projected annual debt service would be approximately \$304,000, calculated at an interest rate of 5.75% for 15 years. Total projected annual debt service from this source would be \$304,000, resulting in debt service coverage ratio of 6.63.

Approved by:



Robert C. Dynes  
President of the University

Date

(Attachments)

ATTACHMENT 1

UNIVERSITY OF CALIFORNIA, SANTA CRUZ

2005-06 DEFERRED MAINTENANCE AND CAPITAL RENEWAL PROGRAM

Priority	Asset/Facility	Age	Project Name	Project Budget	Cumulative External Financing
1	Science and Engineering Library	14 years	Science and Engineering Library Roof Replacement	\$ 725,000	\$ 725,000
2	Natural Gas Regulating Stations	41 years	West Campus Natural Gas Regulating Stations Replacement	\$ 75,000	\$ 800,000
3	Theater Arts A Main Stage	34 years	Theater Arts Heating Hot Water System Replacement	\$ 300,000	\$ 1,100,000
4	Sinsheimer Laboratories	16 years	Sinsheimer Laboratories Chiller Replacements	\$ 650,000	\$ 1,750,000
5	Thimann Laboratories	39 years	Thimann Laboratories Hot Water Piping Replacement	\$ 300,000	\$ 2,050,000
6	21kv Electrical Switches and Feeders	41 years	21kv Electrical Switch and Feeder Replacement	\$ 1,150,000	\$ 3,200,000
7	Theater Arts Master Fire Alarm System	34 years	Theater Arts Master Fire Alarm Replacement	\$ 450,000	\$ 3,650,000
8	Thimann Laboratories Master Fire Alarm System	39 years	Thimann Laboratories Master Fire Alarm Replacement	\$ 350,000	\$ 4,000,000

October 2005

ATTACHMENT 2

**SUMMARY FINANCIAL FEASIBILITY ANALYSIS**

Project Title: 2005-06 Santa Cruz Campus Deferred Maintenance and  
Facilities Renewal Program

Total Estimated Project Cost \$3,000,000

Proposed Source(s) of Funding:

External Financing \$3,000,000

Proposed Financing Terms

Interest Rate: 5.75% Duration: 15 Years

Pledged Source of Repayment:

Federal Indirect Cost Recovery

Campus Allocation of Fund 19933 (Actual 2004-05) \$2,016,000

Estimated Annual Expense:

Projected Annual Debt Service (proposed project) \$304,000

Existing Annual Debt Service \$ 0

Total Annual Expense \$304,000

Debt Service Coverage 6.63x