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ACTION UNDER PRESIDENT'S AUTHORITY – AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENT AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL FINANCING FOR 2006-07 DEFERRED MAINTENANCE AND FACILITIES RENEWAL PROGRAM, BERKELEY CAMPUS

It is recommended that:

Pursuant to Standing Order 100.4(q)

- (1) The President amend the 2006-07 Budget for Capital Improvements and the Capital Improvement Program to include the following project:

Berkeley: 2006-07 Deferred Maintenance and Facilities Renewal Program – preliminary plans, working drawings, and construction --\$5,000,000, 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 \$5,000,000 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 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.
- (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 approval of the Berkeley campus 2006-07 Deferred Maintenance and Capital Renewal Program in the amount of \$5,000,000, to be funded from external financing. The projects in this program address priority needs in buildings that house programs eligible for State funding. 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 19 projects that would replace deteriorated roofs and windows, restore building exteriors and waterproofing systems, restore HVAC systems, replace fire alarm systems and replace portions of the campus steam and sewer systems. Renewal of these subsystems would restore reliability and return the facilities to normal operation. While financing approval for the Berkeley 2006-07 Deferred Maintenance and Capital Renewal Program is requested at a level of \$5,000,000, the campus has defined projects totaling \$6,945,000 to provide flexibility in implementing the program, so that additional projects can be undertaken if savings are achieved in implementing the highest priority projects or should unforeseen changes result in re-ordered project priorities.

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 percent 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 four-year period 2002-03 to 2005-06, generating \$71 million in additional bond funding for this purpose.

The University is committed to continuing this program. This proposal would 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 its Capital Renewal and Deferred Maintenance Program.

Environmental Classification

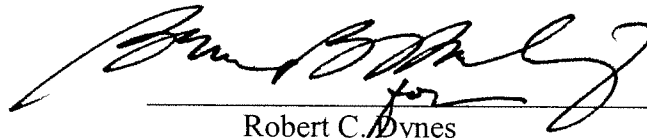
In accordance with the California Environmental Quality Act (CEQA) and the University Guidelines for the Implementation of CEQA, as amended, the proposed projects are being evaluated to determine the appropriate level of CEQA documentation for each project.

Financial Feasibility

The total cost of the Berkeley campus 2006-07 Deferred Maintenance and Facilities Renewal Program would be \$5,000,000 to be supported with external financing. A summary of the financial feasibility analysis is presented in Attachment 2.

The campus would use its share of the Federal indirect cost recovery deposited to campus University General Funds as the pledged source of repayment for external financing. The projected annual debt service would be approximately \$506,000, calculated at an interest rate of 5.75 percent for 15 years. Total projected annual debt service, including the 2002-03 and 2005-06 Deferred Maintenance and Capital Renewal Program, would be \$1,484,000, which results in debt service coverage of 4.0 times.

Approved by:



Robert C. Dynes
President of the University

11/13/06
Date

Attachment

UNIVERSITY OF CALIFORNIA
2006-2007 Deferred Maintenance and Facilities Renewal Program
Summary of Projects Requested for Approval

Campus: BERKELEY

Priority	Building Name	Project Title	Project Cost	Total Cost
1	South Annex	Restore floor	\$500,000	\$500,000
2	University Hall	Restore heating hot water expansion joints	\$75,000	\$75,000
3	O'Brien	Restore walls and windows	\$400,000	\$400,000
4	Giannini	Replace fire alarm	\$530,000	\$530,000
5	Moses	Replace slate tile roof	\$310,000	\$310,000
6	2420 Bowditch	Replace outdoor stairs	\$20,000	\$20,000
7	LS Addition	Water Intrusion remediation	\$460,000	\$460,000
8	Campus	Replace HV feed to Strawberry Canyon	\$400,000	\$400,000
9	Sather Tower	Restore Tower exterior, Phase One	\$400,000	\$400,000
10	2000 Carleton	Restore roofing systems	\$1,200,000	\$1,200,000
11	Lewis	Restore exterior walls	\$700,000	\$700,000
12	Giannini	Waterproof basement	\$300,000	\$300,000
13	Etcheverry	Waterproof high voltage room	\$100,000	\$100,000
14	Tolman	Replace HVAC system	\$350,000	\$350,000
15	Mulford	Replace fire alarm system	\$400,000	\$400,000
16	Hilgard	Replace fire alarm system	\$400,000	\$400,000
17	Evans West Glade	Replace collapsed sewer	\$100,000	\$100,000
18	North of Wheeler	Replace condensate steam piping	\$200,000	\$200,000
19	Campus	Replace steam system	\$100,000	\$100,000
			\$6,945,000	\$6,945,000

ATTACHMENT 2

SUMMARY OF THE FINANCIAL FEASIBILITY ANALYSIS

Project Title: 2006-07 Berkeley Campus Deferred Maintenance and Facilities Renewal Program

Total Estimated Program Cost: \$5,000,000

Proposed Source(s) of Funding:

External financing \$5,000,000

Proposed Financing Terms:

Interest rate: 5.75% Duration: 15 years

Pledged Source of Repayment (FY 2006-07):

Federal indirect cost recovery deposited
to campus University General Funds (19933) \$5,897,000

Projected annual debt service (proposed project) \$ 506,000

Existing annual debt service 978,000

Total estimated annual expense \$1,484 ,000

Pledge Ratio 25%

Debt Service Coverage 3.97x