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May 7, 2007

**ACTION UNDER PRESIDENT'S AUTHORITY -- AMENDMENT TO THE
CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL
FINANCING FOR 2006-07 DEFERRED MAINTENANCE AND FACILITIES
RENEWAL PROGRAM, IRVINE 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:

Irvine: 2006-07 Deferred Maintenance and Facilities Renewal Program – preliminary plans, working drawings, and construction - - \$9,990,000 to be funded from external financing.

Pursuant to Standing Order 100.4(nn)

- (2) The President be authorized to obtain financing not to exceed \$9,990,000 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 Irvine 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 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 execute all documents in connection with the above.

DESCRIPTION

This item requests approval of the Irvine campus 2006-07 Deferred Maintenance and Facilities Renewal Program in the amount of \$9,990,000, 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 list of projects proposed to be funded by this program is included as Attachment 1.

The program includes replacement of the air handling units, exhaust fans and related equipment in the 42-year old Steinhaus Hall, one of the original core academic buildings of the campus. Steinhaus contains the primary teaching laboratories for the School of Biological Sciences, as well as research laboratories, academic and administrative offices, and a vivarium. The air handling units and exhaust fans are well beyond their useful life and are in jeopardy of failing at any time; failure would cause significant program disruptions. A leaking portion of the roof around the exhaust fan area will be replaced, and asbestos abatement will be carried out as necessary to complete the primary work. In addition, the building's technologically obsolete HVAC controls will be replaced with current technology. The program also includes replacement of failing fire alarm panels and the main control panels for Energy Management Systems (EMS) control devices in multiple buildings across the campus, as well as replacement of components of the campus's high voltage distribution system.

While approval of financing for the Irvine 2006-07 Deferred Maintenance and Facilities Renewal Program is requested at a level of \$9,990,000, the campus has defined projects totaling \$11,000,000 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 phases of the program. 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 \$85 million in bond funding for this purpose to date.

The University is committed to continuing this program. This proposal would allow the Irvine 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 Categorical Exempt, Class 1 (Existing Facilities).

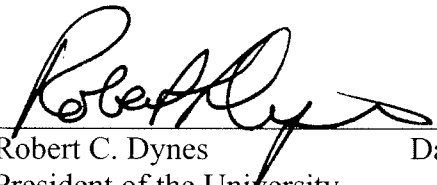
Financial Feasibility

The total cost of the Irvine campus 2006-07 Deferred Maintenance and Facilities Renewal Program will be \$9,990,000 to be supported with external financing. A summary of the financial feasibility analysis is presented in Attachment 1.

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 \$995,260, calculated at an interest rate of 5.50% for 15 years. Total projected annual debt service from this source would be \$2,054,974, resulting in debt service coverage ratio of 3.83.

Approved by:


Robert C. Dynes
President of the University

5/10/07
Date

Attachments

ATTACHMENT 1

CAAN	Asset/Facility	Project Name	Age	Estimated Cost of Project	Cumulative External Financing
9075	Steinhaus Hall	Steinhaus Hall Mechanical System Replacement	42 years	\$ 8,680,000	\$ 8,680,000
Multiple	6 Facilities	Campus Fire Alarm Systems Replacement	13-29 years	\$ 850,000	\$ 9,530,000
6912	12kV Distribution System	12kV Oil Switch Replacement	40 years	\$ 500,000	\$ 10,030,000
Multiple	26 Facilities	Campus Building Control Systems Replacement	16-41 years	\$ 970,000	\$ 11,000,000

ATTACHMENT 2

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title:

2006-07 Irvine Campus Deferred Maintenance and Facilities Renewal Program

Total Estimated Project Cost

\$9,990,000

Proposed Source(s) of Funding:

External Financing

\$9,990,000

Proposed Financing Terms

Interest Rate: 5.50%

Duration: 15 Years

Pledged Source of Repayment (FY 2006-07):

Federal Indirect Cost Recovery

Campus Allocation of Fund 19933

\$7,873,000

Estimated Annual Expense:

Projected Annual Debt Service (proposed project)

\$995,260

Existing Annual Debt Service

\$ 1,059,714

Total Annual Expense

\$2,054,974

Debt Service Coverage

3.83x