



OFFICE OF THE PRESIDENT

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July 28, 2006

**CHAIRMAN OF THE BOARD  
CHAIR OF THE COMMITTEE ON GROUNDS AND BUILDINGS  
PRESIDENT OF THE UNIVERSITY**

**ACTION UNDER INTERIM AUTHORITY - AMENDMENT OF THE BUDGET FOR  
CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND  
AMENDMENT OF EXTERNAL FINANCING FOR SIERRA TERRACES HOUSING  
PROJECT, MERCED CAMPUS**

**EXECUTIVE SUMMARY**

- Campus: Merced
- Project: Sierra Terraces Housing Project
- Action: Approval of budget augmentation and additional external financing of \$5,516,000
- Total Cost: \$31,466,000 to be funded from external financing
- Previous Actions:
- November 2004:** Approval of preliminary plans ("P") funding for project
  - July 2005:** Approval of project budget (\$21,942,000)
  - September 2005:** Certification of Addendum to EIR and Approval of Design
  - March 2006:** Approval of augmentation (\$4,008,000) by external financing and project budget (\$25,950,000)
- Project Summary: The project would construct 60,421 asf of new undergraduate housing, primarily for freshmen in two residence hall buildings. The project would provide 396 revenue student beds and 10 non-revenue staff beds for a total of 406 beds.
- Issues:
- Approval of augmentation for \$5,516,000
  - Approval of increased external financing of \$5,516,000 for a total of \$31,466,000

- Building Cost of \$272/gsf
- Project has been included in the Five-Year Capital Program, Non-State and State Funds since 2004-05

## RECOMMENDATION

- (1) The President recommends that the Committee on Grounds and Buildings recommend to The Regents, that the 2006-07 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Merced: Sierra Terraces Housing Project – preliminary plans, working drawings, construction, and equipment – \$25,950,000 to be funded from external financing.

To: Merced: Sierra Terraces Housing Project – preliminary plans, working drawings, construction, and equipment – \$31,466,000 to be funded from external financing.

### **Deletions shown by strike out, additions by underscore**

- (2) The Committee on Grounds and Buildings recommend to The Regents that the President be authorized to obtain external financing not to exceed ~~\$25,950,000~~ \$31,466,000 to finance the Merced Sierra Terraces Housing Project, subject to the following conditions:
- (a) Interest only, based on amount drawn down, shall be paid on the outstanding balance during the construction period;
  - (b) As long as the debt is outstanding, University of California Housing System fees for the Merced campus shall be established at levels sufficient to provide excess net revenues sufficient to pay the debt service and to meet the related requirements of the proposed funding;
  - (c) The general credit of The Regents shall not be pledged.
- (3) Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal taxation under existing law.
- (4) Officers of The Regents be authorized to execute all documents necessary in connection with the above.

A Key to the abbreviations and the project description are attached.

KEY  
Capital Improvement Program Abbreviations

<b>S</b>	Studies
<b>P</b>	Preliminary Plans
<b>W</b>	Working Drawings
<b>C</b>	Construction
<b>E</b>	Equipment
<b>-</b>	State Funds (no abbreviation)
<b>F</b>	Federal Funds
<b>G</b>	Gifts
<b>HR</b>	Hospital Reserve Funds
<b>I</b>	California Institutes for Science and Innovation
<b>LB</b>	Bank Loans or Bonds (External Financing includes Garamendi, Bonds, Stand-By, Interim and Bank Loans)
<b>LR</b>	Regents' Loans (Internal Loans)
<b>N</b>	Reserves other than University Registration Fee (Housing and Parking Reserves)
<b>R</b>	University Registration Fee Reserves
<b>U</b>	Regents' Appropriations (President's Funds, Educational Fund)
<b>X</b>	Campus Funds
<b>CCCI</b>	California Construction Cost Index
<b>EPI</b>	Equipment Price Index

2006-07 Budget for Capital Improvements and  
Capital Improvement Program  
Scheduled for  
Regents' Allocation, Loans, Income Reserves,  
University Registration Fee Reserves, Gift Funds,  
and Miscellaneous Funds

Campus and Project Title ( <u>Total Cost</u> )	<u>Approved</u>	<u>Proposed</u> <u>2006-07</u>
<u>Merced</u>		
Sierra Terraces Housing Project	P \$ 720,000 LB	C \$ 5,516,000 LB
	W \$ 1,050,000 LB	
	C \$ 23,180,000 LB	
	E \$ 1,000,000 LB	
(\$31,466,000)		

**DESCRIPTION**

This interim action requests approval of a \$5,516,000 budget augmentation with a corresponding increased authorization for external financing of \$5,516,000 to enable the campus to award bids and finish construction of the Sierra Terraces Housing Project. This project would construct 60,421 asf of new undergraduate housing, primarily for freshmen in two residence hall buildings. The project would provide 396 revenue student beds and 10 non-revenue staff beds for a total of 406 beds.

***Background***

In November 2004, The Regents amended the Budget for Capital Improvements and Capital Improvement Program to include preliminary plans for the Sierra Terraces project (Housing 2). In July 2005, The Regents amended the Budget for Capital Improvements and Capital Improvement Program to include a total project budget of \$21,942,000 at CCCI 4642 to be funded from external financing. The Regents approved the project's design in September 2005.

The approved project included 412 new beds primarily for freshmen (400 revenue student beds and 12 non-revenue staff beds). The scope included two residence halls, along with associated community and support space, located in the campus core adjacent to the previously constructed Valley Terraces project.

In the course of completing the design during fall 2005, the campus, the Executive Architect, and the project consultants prepared a cost estimate that indicated that the project was very likely to bid over budget by more than \$5 million, or about 25% of the total project cost. In response to the estimate, which exceeded the approved budget for the project, the campus completed value engineering efforts that reduced the project scope to include only the residential component for students and space for a live-in residence life coordinator. The total number of beds was reduced from 412 to 406 (396 revenue student beds and 10 non-revenue staff beds).

In March 2006, The Regents approved an augmentation of \$4,006,000 to the project budget and revised project scope. The augmentation was provided in response to projected cost overages, associated with significant escalation driven by materials and energy cost increases, the continuing shortage of qualified labor, and the reluctance of contractors to engage in public work in a highly active private sector market.

### ***Status and Need for Augmentation***

In July 2006, the campus bid the project in several bid releases. With 96% of the bidding complete, the campus received total bids which were approximately 28% over budget. Additionally, the requested augmentation of \$5,516,000 includes estimated bid costs for the remaining 4% of the work still to be bid. The campus implemented a number of recommendations that were described in the Regents Committee on Grounds and Buildings' initiated study, Transforming Capital Asset Utilization and Delivery, including intensive outreach to contractors/subcontractors, non-mandatory (web based) prebid presentations and simplification of bid receipt procedures. The campus conducted more than 1,000 phone calls and sent approximately 400 letters publicizing the project. In addition, the campus placed free sets of bidding documents in 20 plan rooms throughout the state and supplemented the cost of purchasing documents to make the packages as attractive as possible to bidders. Calls were made several times a week to potential bidders to encourage them to bid and to make sure all bid related questions were answered.

### ***Green Building Design and Clean Energy Standards***

This project complies with the University of California Policy on Green Building Design and Clean Energy Standards dated June 16, 2004. As required by this policy, the project will adopt the principles of energy efficiency and sustainability to the fullest extent possible, consistent with budgetary constraints and regulatory and programmatic requirements.

### ***Program Scope***

The scope of the project has not changed since the March 2006 budget augmentation. The project would construct two residence hall buildings composed of 192 two-bed bedrooms, four 3-bed bedrooms, 8 single bedrooms for resident advisors, and a 2-bed apartment for the live-in residence life coordinator. The project provides 396 revenue beds and 10 non-revenue staff beds for a total of 406 beds.

### ***CEQA Classification***

In accordance with the California Environmental Quality Act, the Merced Sierra Terraces Housing Project was analyzed in UC Merced's Long Range Development Plan EIR ("LRDP EIR") which was certified by The Regents in January 2002. In conjunction with approval of the design of the Merced Sierra Terraces Housing Project, The Regents certified an addendum to the LRDP EIR in September 2005. The addendum described minor technical changes and additions to the LRDP EIR and documented that no further environmental review supplementing the LRDP EIR was needed in connection with The Regents' approval of the project. No environmental review is deemed necessary for proposed changes in budget and scope.

### ***Financial Feasibility***

The total project cost of \$31,466,000 at CCCI 4642 would be funded from external financing. Based on a debt of \$31,466,000 at 6.125 percent interest amortized over 30 years, the average annual debt service would be estimated at \$2,316,629. Payment of the debt would be from the Merced campus' share of the UCHS annual net revenues.

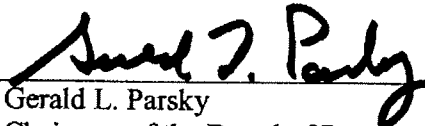
The housing and related programmatic facilities of this project, consisting of 396 student bed spaces and approximately 60,400 asf of area, would be added to the University of California Housing System (UCHS). This project is planned for completion in time for fall 2007 students with housing rates projected to be \$767 per bed. These projected rates would be inclusive of utilities (including high speed access to the campus communication infrastructure). Parking would be provided in the existing student lot that was constructed as part of the Valley Terraces housing project with approximately 340 spaces to serve both complexes (about 980 students). The campus provides transportation services for students to the local community as a mechanism for reducing the average number of car trips, consistent with the campus LRDP.

Given the sensitivity to affordable housing issues for our new students at UC Merced, this augmentation proposes no additional rate increases from the original budget approval of July 2005. The required debt coverage ratio (DCR) will drop below the 1.25 limit; however, the UCHS Housing Directors have agreed to backstop the UCHS Merced DCR until such time as the campus is able to meet the requirement. Attachment 2 illustrates the projected DCR and it is important to note that this DCR includes a future dining expansion project of a not to exceed total project cost of \$10 million. The table, on the following page, summarizes the Merced Housing System rental rate increase through 2009-10 and was presented to The Regents in the March 2006 augmentation item.

<b>UC Merced Rate Increase Associated with Proposed Project</b>						
<i>Year</i>	<i>Operating Increase</i>	<i>Increase Associated with Approved Projects Not Yet On-Line</i>	<i>Increase Associated with This Project</i>	<i>Other Increases (explain, i.e., utility upgrades, etc.)</i>	<i>Total Rate Increase (%)</i>	<i>Proposed Bed Rates (Double Occupancy)</i>
2005-06	---	---	---	---	---	\$692
2006-07	4.0%	---	1.0%	---	5.0%	\$731
2007-08	4.0%	---	1.0%	---	5.0%	\$767
2008-09	4.0%	---	1.5%	---	5.5%	\$809
2009-10	4.0%	---	1.5%	---	5.5%	\$854
<b>Total</b>	<b>16.0%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>0.0%</b>	<b>21.0%</b>	

Additional financial feasibility information may be found on Attachment 2.

Approved (Sierra Terraces Project, Merced Campus):

  
\_\_\_\_\_  
Gerald L. Parsky  
Chairman of the Board of Regents

\_\_\_\_\_  
Joanne Kozberg  
Chairman of the Committee on Grounds and Buildings

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Robert C. Dynes  
President of the University

(Attachments)

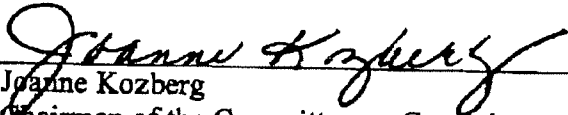


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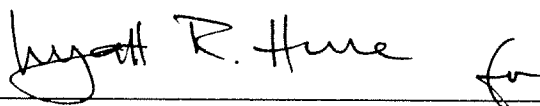
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President of the University

Attachments

**PROJECT STATISTICS  
SIERRA TERRACES HOUSING PROJECT  
CAPITAL IMPROVEMENT BUDGET  
MERCED CAMPUS  
CCCI 4642**

<u>Cost Category</u>	<u>Amount</u>	<u>% of Total</u>
Site Clearance		
Building	\$24,316,000	79.8%
Exterior Utilities	\$400,000	1.3%
Site Development	\$800,000	2.6%
A/E Fees	\$1,500,000	4.9%
Campus Administration	\$650,000	2.1%
Surveys, Tests	\$200,000	0.7%
Special Items <sup>(a)</sup>	\$1,600,000	5.3%
Contingency	\$1,000,000	3.3%
<b>Total</b>	<b>\$30,466,000</b>	<b>100%</b>
Group 2 & 3 Equipment	\$1,000,000	
<b>Total Project</b>	<b>\$31,466,000</b>	

**Statistics**

Gross Square Feet (GSF) <sup>(b)</sup>	89,516 <sup>(c)</sup>	
Assignable Square Feet (ASF) <sup>(b)</sup>	60,421	
Ratio ASF/GSF (%) UC	67%	
Building Cost/GSF <sup>(b)</sup>	\$272	
GSF/bed	220	437 Per bedroom <sup>(d)</sup>
Project Cost per bed (PWC)	\$75,039	\$148,615 Per bedroom <sup>(d)</sup>

**Comparable University Projects at CCCI 4642**

<u>Date of Latest Approval</u>	<u>Campus</u>	<u>Project Name</u>	<u>gsf/bed</u>	<u>Building cost/gsf</u>	<u>Project cost/bed</u>	<u>Project Cost</u>	
						<u>Gsf/bedroom</u>	<u>Cost/bedroom</u>
8/23/02	UCM	Valley Terraces and Dining Commons	195	\$162	\$41,764	390	\$ 83,528
2/8/01	UCSD	Eleanor Roosevelt College Housing & Dining Facilities	230	\$157	\$58,025	460	\$116,050
6/28/04	UCD	Tercero Housing & Dining Commons Expansion	265	\$163	\$70,913	530	\$141,826

(a) Special items include independent structural and cost reviews; document reviews, preconstruction services, and value engineering \$276,000; and interest expense totaling \$1,224,000.

(b) Gross square feet (GSF) is the total area, including usable area, stairways, and space occupied by the structure itself. Assignable square feet (ASF) is the net usable area.

(c) GSF adjusted from March 2006 Regents approval to include mechanical room space

(d) During their March 2006, The Regents approved the Santa Barbara San Clemente project augmentation for a total project cost per bedroom of \$129,748 for 393 sq ft at CCCI 4642.

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

**Project Title: Sierra Terraces Housing Project**

**Total Estimated Project Cost:** \$ 31,466,000

**Proposed Sources of Funding:**

External Funding: \$ 31,466,000  
 Total \$ 31,466,000

**Proposed Financing Terms:**

Interest Rate: 6.125%  
 External Financing Duration: 30 Years

**Project Statistics:**

Estimated average monthly rent per bed (2-bedroom unit) 2009-10<sup>(e)</sup>  
\$ 921<sup>(f)</sup>

**Estimated Average Campus UCHS Revenue (2009-10):** (Error! Bookmark not defined.)

Sierra Terraces Housing Project (396 beds x \$921/mo. x 9.5 months at 95% occupancy)	\$ 3,291,906
Revenue from Existing Beds (586 beds)	\$ 4,812,494
Revenue from Dining	\$ 2,267,892
Revenue from Existing Facilities and Programs	<u>\$ 71,530</u>
Total Revenue	\$ 10,502,683

Existing beds & dining operations at 95% occupancy

**Estimated Merced Annual Operating Expenses (2009-10):** (Error! Bookmark not defined.)

Sierra Terraces Housing Project operating expenses	\$ 2,100,537
Existing facilities operating expenses	<u>\$ 3,150,805</u>
Total	\$ 5,251,341

**Net Revenues Available for Debt Service (2009-10):** <sup>(1)</sup> \$ 5,449,798

Sierra Terraces Housing Project estimated average debt service	\$ 2,316,629
Proposed Dining Expansion (\$10M Presidential Item – Occupancy 8/08)	\$ 612,500
Existing facility principal and interest	<u>\$ 1,767,804</u>
Total Debt Service	\$ 4,696,933

**Debt Service Coverage:** 1.16 X

**UC Housing System Information (2009-10):**

Estimated average annual net revenues	\$ 296,250,000
Estimated average loan payments	\$ 188,719,000
Estimated annual surplus for major maintenance	\$ 107,531,000
Estimated debt service coverage	1.57 X

(e) First full year of principal and interest payments for the project

(f) Rent calculated at 5.5% for years 2008-09, 2009-10 and 2010-11.