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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, SAN DIEGO 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:

San Diego: 2006-07 Deferred Maintenance and Facilities Renewal Program -- preliminary plans, working drawings, and construction -- \$10,000,000 to be funded from external financing.

Pursuant to Standing Order 100.4 (nn)

- (2) The President be authorized to obtain financing not to exceed \$10,000,000 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 San Diego campus share of Federal indirect cost recovery deposited to Fund 19933, which shall be in amounts sufficient 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 authorization of \$10,000,000 in external financing for the 2006-07 Deferred Maintenance and Facilities Renewal Program for the San Diego campus (Program). These funds are needed to replace and/or renew equipment and systems that are beyond their life expectancy and for which further repairs are no longer cost effective.

The University's missions are teaching, research, and public service. In addition, an implied mission of each campus is to protect and safeguard the health, safety and welfare of its students, faculty, staff, and campus visitors. The implementation of the work proposed under the Program would support each one of these missions by providing environments that are safe and conducive to the instructional and research efforts of the campus.

The projects, which are listed in Attachment 1, primarily target five building and infrastructure systems: heating/ventilation/air conditioning (HVAC), roofing, electrical/steam, plumbing/water distribution, and building envelopes/facades. HVAC projects would typically address exhaust and temperature control issues and involve the replacement/renewal of air handlers, chillers, and associate components. Electrical work would primarily involve replacement/renewal of main distribution equipment, motor control systems/centers, and gas switches. Plumbing projects would involve replacement/renewal of high-temperature, domestic and industrial water distribution systems. Projects involving replacement/renewal of roofs and building envelopes would primarily concentrate on failing window systems and concrete facades.

While financing approval for the Program is requested at a level of \$10,000,000, the campus has defined projects totaling \$14,053,000 to provide flexibility in implementing the Program, so that additional projects can be undertaken in the event of project savings 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% 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 facilities 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 facilities 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 facilities 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 facilities 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 campuses participated in this program during the four-year period 2002-03 to 2005-06, generating \$85 million in bond funding for this purpose to date.

The San Diego campus is committed to continuing its deferred maintenance and facilities renewal program. In April 2005, the UCSD Deferred Maintenance and Facility Renewal Work Group was created and charged with, among other things, prioritizing the backlog of deferred maintenance projects. At that time, the backlog for the San Diego campus was estimated at \$245 million for State-supported facilities alone. The work group, as a result of its review, prioritized 77 projects that fell within the University's Priority One definition and totaled approximately \$37 million. This proposal would allow the San Diego campus to direct a portion of their share of Federal indirect cost recovery deposited to Fund 19933 (known internally as part of the University General Funds) to provide long-term financing for its deferred maintenance and facilities renewal projects.

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 will be evaluated to determine the appropriate level of CEQA documentation for each project prior to design approval.

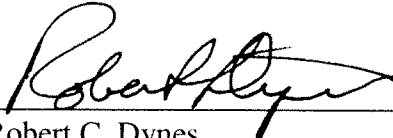
Financial Feasibility

The total project cost of the San Diego campus 2006-07 Deferred Maintenance and Facilities Renewal Program would be \$10,000,000 to be funded 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 Fund 19933 as the pledged source of repayment for the external financing. The projected annual debt service is estimated to be \$996,000 calculated at an interest rate of 5.5% for 15 years. Total projected

annual debt service from Fund 19933, including debt service for all San Diego campus projects, would be \$1,863,000, with a debt service coverage ratio of 8.22 times.

Approved by:

 6/13/07
Robert C. Dynes Date
President of the University

Attachments

University of California, San Diego
2006-07 Deferred Maintenance and Facilities Renewal Program
Summary of Projects Requested for Approval

PRIORITY	FACILITY	PROJECT TITLE	ESTIMATED TOTAL
1	Sverdrup Hall	HVAC Replacement/Interior & Exterior Renewal	\$2,150,000
2	Theodore Gildred Facility	HVAC Replacement	\$750,000
3	303 University Center	Electrical System, HVAC and Chilled Water Systems Renewal	\$615,000
4	SIO Seawater System	Primary Controls Replacement	\$140,000
5	Urey Hall	HVAC Equipment, Motor Control Center and Emergency Power System Replacement	\$2,500,000
6	Humanities & Social Sciences	Failing Exterior Concrete Restoration	\$115,000
7	Geisel Library	Failing Exterior Concrete Restoration	\$650,000
8	Applied Physics and Mathematics	Failing Exterior Concrete Restoration	\$165,000
9	SOM Loop and Muir Loop	High-Temperature Water Ball Joints Replacement	\$550,000
10	Campuswide Infrastructure	High-Temperature and Condensate System Renewal	\$500,000
11	Bonner Hall/McGill Hall	Group 1 Equipment Replacement	\$135,000
12	Hubbs Hall	HVAC System Replacement	\$295,000
13	Mayer Hall	Roof Replacement	\$155,000
14	Mandeville Center	Air Handlers, Fan Coils, Johnson Controls and Reheats Replacement	\$400,000
15	Mandell Weiss Theatre	Chiller Replacement	\$781,000
16	York Hall	Air Handler and Control/Motor Replacement	\$800,000
17	Institute of Geophysics and Planetary Physics/Munk Laboratories	HVAC Equipment Replacement and Exterior Renewal	\$1,000,000
18	Basic Sciences Building and Medical Teaching Facility	Domestic and Industrial Hot Water Piping and Valve Replacement	\$500,000
19	Urey Hall	Roof Replacement	\$110,000
20	Nierenberg Hall	Primary Chiller Replacement	\$120,000
21	Campuswide	Vivaria Renewal	\$410,000
22	Campuswide	Gas Switches Replacement	\$240,000
23	Basic Sciences Building and Medical Teaching Facility	Steam Generators Replacement	\$422,000
24	Engineering Building Unit 1	Reseal Windows/Building Façade	\$150,000
25	Chancellor's Complex (Various Buildings)	Roof Replacement	\$400,000

TOTAL**\$14,053,000**

SUMMARY FINANCIAL FEASIBILITY ANALYSIS**Project Title:**

2006-07 San Diego Campus Deferred Maintenance and Facilities Renewal Program

Total Estimated Project Cost: \$10,000,000**Proposed Sources of Funding:**

External Funding \$10,000,000

Proposed Financing Terms:Interest Rate: 5.5%
Duration: 15 years**Pledged Source of Repayment (FY2006-07):**

Federal Indirect Cost Recovery	
Campus allocation of Fund 19933	\$15,309,000
Proposed project's projected annual debt service	\$ 996,000
Existing Projects:	
SIO Seawater and Stormwater Management Project	<u>\$ 867,000</u>

Total Estimated Annual Debt Service \$ 1,863,000**Debt Service Coverage** 8.22x