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February 28, 2008

**ACTION UNDER PRESIDENT'S AUTHORITY - AMENDMENT OF THE BUDGET
FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM
AND APPROVAL OF EXTERNAL FINANCING FOR 2007-08 DEFERRED
MAINTENANCE AND CAPITAL RENEWAL PROGRAM, IRVINE CAMPUS**

It is recommended that:

Pursuant to Standing Order 100.4(q)

- (1) The President amend the 2007-08 Budget for Capital Improvements and the Capital Improvement Program to include the following project:

Irvine: 2007-08 Deferred Maintenance and Capital Renewal Program – preliminary plans, working drawings, and construction – \$2,571,000 to be funded from external financing.

Pursuant to Standing Order 100.4(nn)

- (2) The President be authorized to obtain financing not to exceed \$2,571,000 prior to awarding construction contracts, subject to the following conditions:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period;
 - b. As long as the debt is outstanding, the Irvine campus' share of the Federal Indirect Cost Recovery deposited to Fund 19933 shall be maintained in amounts sufficient to pay debt service and to meet the related requirements of the authorized financing; 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 be authorized to execute all documents in connection with the above.

DESCRIPTION

This item requests authorization of \$2,571,000 in external financing for the 2007-08 Deferred Maintenance and Capital Renewal Program for the Irvine campus. These funds are needed in order to repair or replace elements of the campus' 40-year-old electrical infrastructure and to expand the capacity and flexibility of the campus' overburdened electrical distribution system. The project addresses one of the highest priority deferred maintenance needs of the campus, as well as improving the overall energy efficiency of the system.

Background

The Irvine campus has an aging electrical infrastructure that has not kept pace with the significant campus growth of the past two decades. As new buildings are constructed across the campus and their electrical load is connected to the existing distribution system, sections of the distribution system can become overloaded, overheating cables and shortening their remaining life. Currently, half of the distribution system's primary feeder cables operate at a significant overload, and the other half are at maximum capacity. This prevents the distribution system from operating as designed as a dual feed system, where primary feeder cables provide electrical power, and backup feeders provide support in the event of a system failure or to facilitate regular building maintenance. Additionally, the configuration of the distribution system is incomplete and inefficient. As the system currently operates, electrical power must be distributed first to the eastern most part of campus, and then double back along the campus' Ring Mall to provide service to the Physical Sciences and Biological Sciences quads, which contain some of the most energy-intensive laboratory buildings on campus. Finally, sections of the electrical infrastructure are over 40 years old; these include paper-insulated lead cables that cannot distribute as much load as copper cables and leach lead into the ground. The outdated oil switches also pose a safety and reliability hazard.

Components of the campus' electrical infrastructure require periodic capital renewal in addition to regular maintenance. With capital budgets constrained, the campus has deferred repair and renewal of the electrical distribution system. In many cases, system components are now beyond their useful life and are in critical need of replacement or repair in order to return the system to maximum efficiency, to prevent accelerating deterioration, and to mitigate environmental and safety hazards.

Project Description

The project would relieve overloaded electrical feeder cables by extending new cable into areas of the campus with a high density of buildings, allowing for the offloading and redistribution of existing electrical loads. This would allow the campus to maintain the distribution system as a dual feed that can support both emergency situations and regular maintenance, as well as realize energy efficiencies. The project would replace sections of paper-insulated cable with cable that meets current standards, as well as replace outdated oil switches with gas switches in key campus locations. The new electrical distribution equipment would begin another life cycle of 30 years.

Program Background

In February 1998, The Regents approved external financing with repayment of bonds made from a portion of the increase over the prior year's UC General Funds, specifically nonresident tuition funds, to address the need for regular systematic renewal of existing facilities and to reduce the backlog of deferred maintenance projects. This bond-financed program resulted in an infusion of almost \$240 million for capital renewal over a four-year period.

In 2002-03, the systemwide debt financing program for capital renewal and deferred maintenance was suspended because the University funds used to support debt financing was 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. In 2004, the program was expanded to include energy efficiency projects. Several campuses have participated in this program during the five-year period 2002-03 to 2006-07, generating approximately \$140 million in bond funding for this purpose.

The University is committed to continuing the deferred maintenance, capital renewal and energy efficiency program. This proposal would allow the Irvine 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, capital renewal, and energy efficiency program.

Sustainability

This project will comply with the UC Policy on Sustainable Practices. 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.

Environmental Classification

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

Financial Feasibility

The total cost of this portion of the Irvine campus 2007-08 Deferred Maintenance and Capital Renewal Program would be \$2,571,000 funded from external financing.

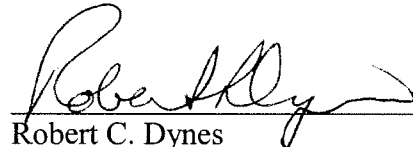
As long as the debt is outstanding, the Irvine campus' share of the Federal Indirect Cost Recovery deposited to Fund 19933 shall be maintained in amounts sufficient to pay debt service and to meet the related requirements of the authorized financing. The projected annual debt service would be \$256,137, calculated at an interest rate of 5.50% for 15 years. Total existing

and projected annual debt service from this source would be \$2,311,111, resulting in debt service coverage of 3.41 times.

The external financing will be paid from specific revenue sources specified in the external financing documents; therefore, the general credit of The Regents will not be pledged.

A summary of the financial feasibility analysis is presented in Attachment 1.

Approved:


Robert C. Dynes 3/3/08
President Date

ATTACHMENT 1

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title:

2007-08 Irvine Campus Deferred Maintenance and Capital Renewal Program

Total Estimated Project Cost

\$2,571,000

Proposed Source(s) of Funding:

External Financing

\$2,571,000

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)

\$256,137

Existing Annual Debt Service

\$2,054,974

Total Annual Expense

\$2,311,111

Debt Service Coverage

3.41x