



SENIOR VICE PRESIDENT –
BUSINESS AND FINANCE

OFFICE OF THE PRESIDENT
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200
October 10, 2006

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

Santa Cruz: 2006-07 Deferred Maintenance and Facilities Renewal Program – preliminary plans, working drawings, and construction - - \$1,250,000 to be funded from external financing.

Pursuant to Standing Order 100.4(nn)

- (2) The President be authorized to obtain financing not to exceed \$1,250,000 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 Santa Cruz 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 Santa Cruz campus 2006-07 Deferred Maintenance and Facilities Renewal Program in the amount of \$1,250,000, to be funded from external financing. These funds are needed to replace fire detection systems, replace elevator mechanical and electrical systems, and replace hot water piping that are beyond their life expectancy and for which further repairs are no longer cost effective. Addressing the deferred maintenance and facilities renewal problem is one of the University's highest priorities. A list of projects proposed to be funded by this program is included as Attachment 2.

The projects target four building and infrastructure systems: electrical, plumbing, and fire alarm systems. The scope of work on the master fire alarm systems typically include replacing existing electrical and computerized components that convey information and detect fire and smoke. The plumbing project involves replacing existing leaking pipes with installing new piping. The elevator renewal requires replacing obsolete electrical controls and rebuilding or replacing mechanical components. While approval of financing for the Santa Cruz 2006-07 Deferred Maintenance and Facilities Renewal Program is requested at a level of \$1,250,000, the campus has defined projects totaling \$1,740,000 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% 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 Santa Cruz 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

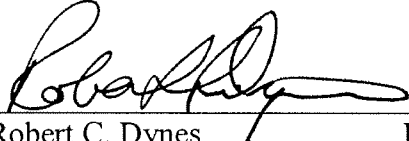
In accordance with the California Environmental Quality Act (CEQA) and the University Guidelines for the Implementation of CEQA, as amended, the proposed projects are classified Categorically Exempt, Class 1 (Existing Facilities).

Financial Feasibility

The total cost of the Santa Cruz campus 2006-07 Deferred Maintenance and Facilities Renewal Program would be \$1,250,000 funded by 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 \$127,000, calculated at an interest rate of 5.75% for 15 years. Total projected annual debt service from this source would be \$431,000, resulting in debt service coverage ratio of 6.03.

Approved by:

 10/11/06
Robert C. Dynes Date
President of the University

Attachments

ATTACHMENT 1

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title:

2006-07 Santa Cruz Campus Deferred Maintenance and Facilities Renewal Program

Total Estimated Program Cost: \$1,250,000

Proposed Source(s) of Funding:

External Financing \$1,250,000

Proposed Financing Terms:

Interest Rate: 5.75% Duration: 15 Years

Pledged Source of Repayment (FY 2005-06):

Federal Indirect Cost Recovery
Campus Allocation of Fund (19933) \$2,602,000

Estimated Annual Expense:

Projected Annual Debt Service (proposed project)	\$ 127,000
Existing Annual Debt Service (Santa Cruz DM Program)	<u>\$ 304,000</u>
Total Annual Expense	\$431,000
Debt Service Coverage	6.03x

ATTACHMENT 2

UNIVERSITY OF CALIFORNIA, SANTA CRUZ
2006-07 DEFERRED MAINTENANCE AND FACILITIES RENEWAL PROGRAM

CAAN	Asset/Facility	Age	Project Name	Estimated Cost	Cumulative External Financing
7311	Theater Arts	35 years	Theater Arts Master Fire Alarm Replacement	\$ 500,000	\$ 500,000
7166	Thimann Laboratories	40 years	Thimann Laboratories Master Fire Alarm Replacement	\$ 400,000	\$ 900,000
7166	Thimann Laboratories	40 years	Thimann Laboratories Hot Water Piping Replacement	\$ 350,000	\$ 1,250,000
7744	Baskin Engineering	30-35 years	Baskin Engineering Passenger Elevator Mechanical/Electrical Repairs	\$ 210,000	\$ 1,460,000
7166	Thimann Laboratories	40 years	Thimann Laboratories Elevator Mechanical/Electrical Repairs	\$ 140,000	\$ 1,600,000
7179	Natural Sciences II	35 years	Natural Sciences II Elevator Mechanical/Electrical Repairs	\$ 140,000	\$ 1,740,000