

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of July 21, 2015

APPROVAL OF THE BUDGET, APPROVAL OF EXTERNAL FINANCING, AND APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, DOWNTOWN CENTER, MERCED CAMPUS

EXECUTIVE SUMMARY

The proposed Downtown Center project is for construction of a new 67,400-gross-square-foot building in Downtown Merced that would provide space for campus administration. The project would also provide a small amount of mixed-use collaborative space, consisting of conference and seminar rooms as well as a work café.

The building would allow the campus to consolidate administrative staff currently on-campus (third floor of the Kolligian Library) and in multiple off-campus sites (Castle, Promenade, and Mondo) to a centralized location. The primary goal of the project is to create a facility that enhances cost-efficiency and staff productivity by consolidating leased space and utilizing efficient and flexible layouts suited to a 21st century work environment. The project would allow the campus to release valuable on-campus space in the Kolligian Library for faculty/student use.

In March 2015, the Regents approved Preliminary Plans funding of \$1.36 million. The Regents are being asked to: (1) approve the project budget of \$45,116,000 to be funded with external financing in the amount of \$41,998,000 (previously issued Century Bonds) and campus funds of \$3,118,000; (2) approve \$41,998,000 of external financing; (3) adopt the Initial Study/Mitigated Negative Declaration and Findings in accordance with the California Environmental Quality Act; and (4) approve the design for the Downtown Center project.

RECOMMENDATION

1. The President of the University recommends that the Committee on Grounds and Buildings recommend to the Regents that:
 - A. The 2015-16 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Merced: Downtown Center – preliminary plans – \$1.36 million to be funded from campus funds.

- To: Merced: Downtown Center – preliminary plans, working drawings, construction and equipment – \$45,116,000 to be funded from external financing (\$41,998,000 of previously issued Century Bonds) and campus funds of \$3,118,000.
- B. The scope of the Downtown Center shall consist of constructing a three-story, 67,400-gross-square-foot building that would provide approximately 40,580 assignable square feet (asf) of administrative space and 6,600 asf of mixed-use collaborative space.
- C. The President be authorized to utilize external financing in an amount not to exceed \$41,998,000 to finance the Downtown Center project. The President shall require that:
- (1) Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - (2) As long as the debt is outstanding, general revenues from the Merced campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - (3) The general credit of the Regents shall not be pledged.
2. The President recommends that, following review and consideration of the environmental consequences of the proposed Downtown Center project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Committee on Grounds and Buildings:
- A. Adopt the attached Initial Study/Mitigated Negative Declaration for the Downtown Center project in accordance with CEQA.
 - B. Adopt the CEQA Findings for the Downtown Center project.
 - C. Approve the design of the Downtown Center project for the Merced campus.

BACKGROUND

UC Merced currently utilizes off-campus leased space in the cities of Atwater (Castle 1200) and Merced (Mondo Building and Promenade) to accommodate campus administration functions. This has allowed the campus to allocate their limited on-campus space mostly for student academic and support functions. The space being leased, however, has impacted work operations for campus administration.

The spaces currently being leased are inefficient and geographically isolated, resulting in increased operational costs, inefficient communication, and poor departmental synergy. A study was recently commissioned to better understand the workplace environment for administrative staff at UC Merced. The preliminary findings show that the campus administrative staff struggle to collaborate with little face-to-face interaction. Additionally, the leased facilities cannot accommodate the administration currently housed in Kolligian Library, where space occupied by campus administration is needed to be released for student support functions.

To remedy the staffing issues described above, the Urban Land Institute, in 2013, recommended that UC Merced locate a significant number of staff members at a central location. One suggested location was downtown Merced, which would strengthen the campus' presence within the city. After reviewing all leasing opportunities, the campus determined that adequate office space for lease in Merced is not available, and committing to leased space does not provide a long-term solution. Therefore, the campus is proposing to construct the Downtown Center that will consolidate many of the campus' administrative functions, provide the campus with a Downtown presence, and help revitalize the Downtown neighborhood by bringing approximately 370 people to the area each business day.

As shown in Table 1 below, the proposed project will also allow the campus to release approximately 71,500 assignable square feet (asf) of leased space in various locations and approximately 4,500 asf of space at the Kolligian Library, which will be reverted for student and academic use.

Table 1: Current (2015) and Proposed (2021) Administrative Space

Administrative Space Holdings	2015 (ASF)	2021 (ASF)	Change (ASF)
Leased Space	84,811	13,228	(71,583)
Owned (not including project)*	53,079	48,579	(4,500)
<i>Proposed Downtown Center</i>	-	47,180 [^]	47,180
TOTAL	137,890	108,987	(28,903)

*Kolligian Library will still be owned. Space will revert to Student or Academic Programs

[^]The Downtown Center will open in fall 2017, but the campus will maintain the leased space holdings until the various agreements expire. That will not be until 2021.

Preliminary plans funding for this project was approved by the Regents at their March 2015 meeting. The preliminary plans funding has allowed the campus to confirm the scope of work, complete design, and complete all associated environmental work. The budget and scope of the project are as described in the March 2015 item. The March 2015 item discussed the possibility of constructing a four-story building with a ground floor consisting of retail, conference, and other mixed-use spaces. The campus has chosen to not pursue the four-story option, as the additional retail program proved to be financially infeasible and the additional floor is not needed to support the administrative program.

PROJECT DESCRIPTION

The proposed project would construct a three-story, approximately 67,400 gross square feet (gsf) (47,180 asf) Downtown Center building that includes administrative offices/workspaces and mixed-use collaborative space, consisting of conference and seminar rooms, as well as a work café. The scope of work would include site clearance; provision of utilities; installation of fixed equipment, millwork, security systems, audio visual equipment, and specialty lighting; and provision of data communications connectivity, conduit and cabling. The project would also include procurement and installation of movable furniture and equipment throughout the public areas, conference facilities and offices/workspaces.

Program

The ground floor would consist of a combination of administrative and mixed-use space which would include conference and seminar/training facilities and a collaborative area consisting of unassigned stations, a café, booth seating, and a break room. The classroom/meeting space is meant to utilize space in a mixed-use capacity, as the administrative staff will use the space during the business day as an additional large conference or training room. During the evening, the space could be utilized as extension program classrooms.

Levels 2 and 3 would consist of administrative space constructed in an open office configuration. Activity-based programming would be implemented to optimize the utilization of space and improve upon the current deficiencies in staff interaction. No private offices will be constructed, as huddle rooms and focus rooms will provide all staff access to private space. While individual staff work stations will be downsized to approximately 36 asf, allowing for a higher occupancy density, engaging collaborative areas within the gross square footage envelope of the facility will be created to provide the staff the flexibility to perform their work in an area conducive to their functional needs. This activity-based programming approach is aimed at increasing staff interaction and collaboration, and differs greatly from the space currently being leased. The layout proposed in this building, as well as UC Merced's goal of managing documents mainly electronically, will allow the campus to significantly reduce the overall square footage allocated for administrative space.

Table 2. Program Summary

Level 1	ASF
Administrative	8,200
Classroom/Meeting	3,800
Collaborative Area	2,800
Subtotal	14,800
Levels 2 & 3	
Administrative	32,380
Total	47,180

The program is designed to support the needs of approximately 40 different departments. The campus will standardize the approach to furniture design to minimize the need for special configurations. It will provide long-term flexibility to accommodate any growth in administrative staff (i.e., consistent with the planning projections for the 2020 Project), with the facility providing for a capacity of approximately 370 administrative staff.

Location

The University purchased 0.83 acres in June of 2014, located at the corner of N Street and West 18th Street. The site is ideally located within the downtown area of Merced and has numerous surrounding parking facilities.

Building Design

The building design maximizes the site and will provide additional natural light through the center of the three-story building by utilizing two light shafts and a monitor. The interior building floor plan will be highly flexible and efficient.

The main entrance compliments the adjacent Merced City Hall and is stepped back to create a prominent covered entrance at the corner of 18th and N Streets. Because of the orientation of the street grid in Merced (skewed from true north), the building will highlight two shading systems: the south façade would be insulated from exposure to the sun with an architectural scrim utilizing horizontal louvers and the west façade would have vertically oriented sunshades, both of which are necessary to achieve energy targets. The north and east façades are adjacent to neighboring properties and are predominantly protected from direct sunlight.

While not on campus, the Downtown Center Project conforms to the campus' Physical Design Framework principles, including:

- The use of passive energy management strategy
- Mixed-use programming to create an engaging environment
- Simple materials (concrete, glass) in utilitarian forms consistent with campus and valley aesthetics.

The three-story massing of the facility is consistent with the adjacent buildings. The majority of mechanical equipment would be located on the ground floor and shielded from pedestrian view.

Project Schedule

It is anticipated that project construction would commence in Spring 2016 and would be completed Summer 2017, with occupancy anticipated in August 2017.

Financial Feasibility

The total project budget for preliminary plans, working drawings, construction and equipment is estimated to be \$45,116,000 funded from external financing (\$41,998,000 from previously issued Century Bonds) and campus funds of \$3,118,000.

Based on long-term debt of \$41,998,000 at an interest rate of 4.95 percent (amortized rate of Century Bond), the estimated annual principal and interest debt service payment for the project would be approximately \$2,743,000. While the Century Bond is interest only for 99 years with a bullet maturity in year 100, the campus will amortize the debt internally and repay itself over 30 years, so that the funds can be directed toward another project in the future. The campus will utilize campus funds to pay interest during construction of the Downtown Center. The Summary of Financial Feasibility is provided in Attachment 3.

ENVIRONMENTAL IMPACT SUMMARY

Environmental Review Process

Pursuant to State law and University procedures for the implementation of the California Environmental Quality Act (CEQA), the potential environmental effects of the proposed UC Merced Downtown Center Project were analyzed in a Final Initial Study/Mitigated Negative Declaration (IS/MND) (SCH#2015041087), dated April 2015.

A Notice of Intent to Adopt a Mitigated Negative Declaration based on a Draft IS/MND was submitted on April 27, 2015 to the Governor's Office of Planning and Research, State Clearinghouse as well as local and regional agencies and other interested groups and individuals for a 30-day review period ending on May 26, 2015. The Draft IS/MND was posted on the Division of Planning and Budget website and hard copies were delivered to UC Merced's Kolligian Library.

Environmental Impacts

The IS/MND found that the Downtown Center Project would have less than or no significant impact on the environment in regard to land use, aesthetics, population and housing, transportation and circulation, noise, air quality, greenhouse gas emissions, wind and shadow, recreation, utilities and service systems, public services, geology and soils, hydrology and water quality, mineral/energy resources, agricultural and forest resources.

With inclusion of the mitigation measures identified in the IS/MND, the Downtown Center Project would have no significant environmental impacts in regard to biological resources, cultural resources, hazards and hazardous materials.

Public Comments

During the comment period, two comment letters were received from the California Department of Toxic Substances Control and the City of Merced. The comment letters do not raise any new issues that are not adequately analyzed in the Initial Study pursuant to CEQA. Responses to both letters have been prepared by UC Merced and are included in the Final IS/MND. Therefore, no changes or amendments to the IS/MND were warranted because of public comments.

Findings

Based on the impact assessment in the attached Final IS/MND, it has been determined that the proposed project, as mitigated, will not result in any significant direct, indirect, or cumulative environmental impacts. With the implementation of mitigation measures, impacts related to Biological Resources (migratory birds/wildlife), Cultural Resources (archaeological/paleontological resources), Hazards and Hazardous Materials (worker safety), would be less than significant. The attached Initial Study discusses the Project's impacts, mitigation measures and conclusions regarding adoption of the Mitigated Negative Declaration in conformance with CEQA.

Key to Acronyms

ASF	Assignable Square Feet
CEQA	California Environmental Quality Act
GSF	Gross Square Feet
IS/MND	Initial Study/Mitigated Negative Declaration

- Attachment 1: Project Budget
- Attachment 2: Comparable Project Information
- Attachment 3: Summary of Financial Feasibility
- Attachment 4: Initial Study/Mitigated Negative Declaration
(<http://opb.ucmerced.edu/environmental/downtowncenter>)
- Attachment 5: **CEQA Findings**
- Attachment 6: **Project Graphics**

**PROJECT BUDGET
DOWNTOWN CENTER
CCCI 6479**

Category	Proposed Budget July 2015	% of Total
Site Clearance	\$126,000	0.3
Building	31,232,000	73.9
Exterior Utilities	610,000	1.4
Site Development	380,000	0.9
A/E Fees ⁽¹⁾	2,686,000	6.4
Campus Administration ⁽²⁾	800,000	1.9
Surveys, Tests, Plans	465,000	1.1
Special Items (excl. financing costs) ⁽³⁾	1,224,000	2.9
Financing Costs (Current Interest) ⁽⁴⁾	3,118,000	7.4
Contingency	1,625,000	3.8
<i>Total P-W-C</i>	\$42,266,000	100%
Groups 2 & 3 Equipment	2,850,000	
Total Project	\$45,116,000	
Project Statistics:	July 2015	
GSF ⁽⁵⁾	67,400	
ASF ⁽⁵⁾	47,180	
Efficiency Ratio: ASF/GSF	70%	
Building Cost/GSF	\$463	
Project Cost /GSF ⁽⁶⁾	\$627	
Funding Schedule	July 2015	
Preliminary Plans	\$1,360,000	
Working Drawings	\$2,400,000	
Construction	\$38,506,000	
Equipment	\$2,850,000	
Total	\$45,116,000	

Notes:

- (1) Fees include Executive Architect and other professional design contract costs.
- (2) Campus Administration includes project manager, planning, engineering and design review, and contracts administration.
- (3) Special items include Detailed Project Program, environmental documentation, specialty consultants, and agency fees.
- (4) Financing Costs are projected to be the full amount of the annual debt service for each fiscal year the project is under construction.
- (5) 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.
- (6) Project Cost excludes Group 2 & 3 Equipment.

Comparable Project Information

The Office of the President maintains a database of cost data for university office and classroom projects. From this list, three construction projects were selected that are (1) within 20 percent of 67,400 GSF, and (2) have budgets within the last ten years. Building cost/GSF was determined to be the most relevant, since it excludes many variances in site conditions reflected in construction cost.

Campus	Project	Original CCCI	GSF	Adjusted Building Cost/GSF	Adjusted Project Cost/GSF
UC Irvine	Business Unit 2	5732	78,982	\$ 435	\$ 633
UC San Francisco	MB Block 25A Academic Building	5880	251,000	\$ 346	\$ 453
UC San Diego	East Campus Office Building	5296	75,000	\$ 272	\$ 511
CSU Chico	Student Services Building	4901	119,865	\$ 435*	Unavailable
Caltrans	District 3 Administrative Facility	5076	205,000	\$ 358*	Unavailable
Merced	Downtown Center	6479	67,400	\$ 463	\$ 627

**Does not achieve the UC energy policy of 20 percent greater than title 24 requirement.*

The predesign estimate study indicated that the Building Cost/GSF would be \$445/gsf with a CCCI of 6479. This analysis did not take into effect the specific site challenges due to geographical orientation, mainly the buildings longest façade directly faces southwest. Due to this exposure, approximately \$1.3 million of building costs are necessary to ensure compliance with UC Energy Policy of beating Title 24 by 20 percent. In general, the facility is using design principles consistent with the campus Physical Design Framework, such as use of utilitarian materials and minimizing the need for specialty finishes.

In comparison to other UC projects, the Downtown Center is within the spread associated with projects of similar size and programmatic scope.

SUMMARY OF FINANCIAL FEASIBILITY

Merced Campus	
Project Name	Downtown Center Project
Project ID	900320
Total Estimated Project Costs ⁽¹⁾	\$45,116,000
Anticipated Interest During Construction (Current Interest) (included in estimated project cost) ⁽²⁾	\$3,118,000

Proposed Sources of Funding	
External Financing (Century Bond)	\$41,998,000
Campus Funds	\$3,118,000
Total	\$45,116,000

(1) Fund sources for external financing shall adhere to University policy on repayment for capital projects.

(2) Calculated as the full annual debt service for each fiscal year the project is under construction (not capitalized).

Long-term external financing assumptions are listed below

Financing Assumptions	
External Financing Amount (Century Bond)	\$41,998,000
Anticipated Repayment Source	General Revenues of the Merced Campus
Anticipated Fund Source	Campus Unrestricted Funds
Financial Feasibility Rate	4.95%
First Year of Principal	FY 2018
Final Maturity	FY 2047
Term (e.g. 30 years)	30 years
Estimated Average Annual Debt Service	\$2,743,000

Below are results of the financial feasibility analysis for the proposed project using the campus' Debt Affordability Model. External financing approval requires the campus to meet the debt service to operations benchmark and one of the two other benchmarks for approval. The financial projections take into consideration market conditions, new sources of revenue, and all previously approved projects. The corresponding campus Debt Affordability Model has been submitted to Capital Markets Finance at UCOP. Capital Markets Finance is working on a revised version of the Debt Affordability Model for campuses that may have revised benchmarks and approval thresholds as a result of general revenue pledge changes.

Measure	Campus Financing Benchmarks (As of June 18, 2015)	
	10 Year Projections	Approval Threshold
Debt Service to Operations	7.0% (max) FY 2019*	Less than 6.0%
Debt Service Coverage	2.9x (min) FY 2028	Greater than 1.75x
Expendable Resources to Debt	n/a	Greater than 1.0x

*The Merced campus is exempt in this case from meeting the required financial feasibility metrics. The debt model includes projects seeking future external financing approval that were included in the 2014-24 Capital Financial Plan.

The metrics used to determine financing feasibility are defined below.

Measure	Definition
Debt Service to Operations (%)	$\frac{\text{Annual Debt Service}}{\text{Total Operating Expenses}}$
Debt Service Coverage (x)	$\frac{\text{Operating Income} + \text{Depreciation} + \text{Interest}}{\text{Annual Debt Service}}$
Expendable Resources to Debt (x)	$\frac{\text{Expendable Financial Resources (unrestricted net assets} + \text{temporarily restricted net assets} - \text{net investment in plant)}}{\text{Total Debt Outstanding}}$