

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of May 16, 2006

AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND AMENDMENT OF EXTERNAL FINANCING FOR SAN DIEGO SUPERCOMPUTER CENTER EXPANSION, SAN DIEGO CAMPUS

EXECUTIVE SUMMARY

- Campus: San Diego
- Project: San Diego Supercomputer Center Expansion
- Action: Approval of Budget Augmentation
- Total Cost: \$48,860,000, to be funded from external financing (\$47,860,000) and campus funds (\$1,000,000)
- Previous Actions: **September 2004:** Certification of LRDP EIR (containing analysis of Supercomputer Center)
November 2004: Approval of project budget (\$41,738,000)
January 2005: Approval of project design and environmental findings
- Project Summary:
- The project will construct a 79,680 gsf (50,625 asf) building for the San Diego Supercomputer Center.
 - Includes faculty and administrative offices, research laboratories, computer room, and conference rooms.
- Issues:
- Budget augmentation of \$7,122,000
 - Additional external financing of \$7,122,000
 - Building cost per gsf: \$373
 - This project is included in the Five-Year Non-State Capital Program 2002-03.

RECOMMENDATION

The President recommends that:

- (1) The Committee on Grounds and Buildings recommend to The Regents that the 2005-06 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

Deletions shown by strikeout, additions by underscore

San Diego: San Diego Supercomputer Center Expansion – preliminary plans, working drawings, construction, and equipment – ~~\$41,738,000~~ \$48,860,000, to be funded from external financing (~~\$40,738,000~~) (\$47,860,000) and campus funding (\$1,000,000).

- (2) The President be authorized to obtain external financing not to exceed ~~\$40,738,000~~ \$47,860,000 to finance the project listed in (1) above, 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. Repayment of the debt shall be from San Diego campus' share of the University Opportunity Fund.
 - c. The general credit of The Regents shall not be pledged.
- (3) The 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 income taxation under existing law.
- (4) The 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

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

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 (Total Cost)	<u>Prior</u> <u>Approval</u>	Proposed <u>2005-06</u>
<u>San Diego</u>		
San Diego Supercomputer Center	P \$1,806,000 LB	
Expansion	W \$2,211,000 LB	
	C \$36,721,000 LB	C \$7,122,000 LB
	E \$1,000,000 X	
(\$48,860,000)		

BACKGROUND

Approval is requested to augment the existing budget by \$7,122,000 of external financing in order to accommodate increases in construction costs and local and regional market conditions that were unanticipated at the time the project was originally budgeted. This project is included in the Five-Year Capital Program Non-State and State Funds 2005-06 to 2009-10.

In November 2004, The Regents amended the Budget for Capital Improvements and Capital Improvement Program to include a total budget for the project of \$41,738,000, to be funded through external financing (\$40,738,000) and campus funds (\$1,000,000). The Regents approved the project's design in January 2005.

Based on construction bids for the project, additional funds are warranted to allow award of a contract to the lowest responsible bidder.

The bid overrun on this project is reflective of the current volatile construction market and adverse bidding climate where contractors and subcontractors are saturated and highly selective about which projects to bid and are compelled to increase their bid amount to cover their exposure on public bid projects as well as unknown and uncontrollable future materials price increases.

The campus did what was necessary to assure that the project cost estimates were on budget before proceeding to the next phase of development. At the end of the Schematics phase it was estimated that the project was \$2.5 million over budget. Value engineering was applied to the design to align it with the approved budget. Several months later, the Design Development Phase was completed, following which the campus estimated the project to be \$3 million over

budget. Again, the campus applied value engineering and reassessed areas of the design. At the 50 percent Construction Document Phase, again a cost estimate identified an approximate \$1.5 million possible overrun. Even by identifying every item which could be accepted to get back to the approved budget prior to going out to bid the campus was unable to overcome the significant unexpected premium in labor and materials costs, given the surge of construction activity in the San Diego region.

The campus considered shelling a portion of the space in the project as a cost-cutting measure. Because future investments will ultimately be required to build out the shelled space and will be subject to additional material and labor cost escalation, however, the shelling option is not recommended, as it will be more costly in the long run than awarding the current contract.

Project Description

The scope of the proposed project has not changed since approval of the project budget in November 2004.

This expansion will add 50,265 asf to the existing San Diego Supercomputer Center (SDSC) facility. While primarily composed of office space, the expansion will also enlarge the computer machine room in the original facility by 7,000 asf; create a new entry that will connect the 1985 and 1996 structures to the expansion; and add computer labs, meeting rooms, conference rooms, an auditorium, and support areas.

Given the technological nature of work conducted at the SDSC, the operational demands for electrical power are considerable. This demand will escalate with the completion of the 7,000 asf computer machine room and the aforementioned projected growth and consolidation. To meet both SDSC's increasing demand for electrical power and the demands that will be generated by the continuing growth of the North Campus, the construction of a new 12 kV switching station was incorporated into the project's scope of work. The station is an essential component and requirement of the project and integral to the future operations of the SDSC.

Construction of the SDSC expansion is scheduled to begin in June 2006, with occupancy in March 2008.

Green Building Policy and Clean Energy Standard

This project will comply with the *Presidential Policy for Green Building Design and Clean Energy Standards*. 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.

CEQA Classification

In accordance with University of California guidelines for the implementation of the California Environmental Quality Act, this project was evaluated in the LRDP EIR, which was certified at the September 2004 Regents meeting. Project design was approved in January 2005 and environmental findings were made.

Financial Feasibility

The total project cost of \$48,860,000 will be funded from external financing (\$47,860,000) and campus funds (\$1,000,000).

Based on long-term debt of \$47,860,000 amortized over 30 years at 6.125 percent interest, the estimated average annual debt service of \$3,524,000 will be repaid from the San Diego campus' share of the University Opportunity Fund. Opportunity Funds are a portion of the indirect cost recovery generated by federal contracts and grants. The University Opportunity Fund Debt Repayment Policy requires that campuses meet two financial tests: (1) that the amount pledged for debt payments shall not exceed 65 percent of the campus's total Opportunity Funds allocated each year, and (2) that no more than 33 percent of the campus's total Opportunity Funds allocated each year are used for debt service payment. The San Diego campus meets both tests. In fiscal year 2009-10, the first full year of principal and interest payments for the project, 56 percent of Opportunity Funds are pledged for debt service. Inclusive of this amount and other planned projects for external financing from Opportunity Funds, the campus is within the prescribed Opportunity Fund Pledge and payment limits.

Additional financial feasibility information may be found on Attachment 2.

(Attachments)

PROJECT STATISTICS
SAN DIEGO SUPERCOMPUTER CENTER EXPANSION
CAPITAL IMPROVEMENT BUDGET - SAN DIEGO CAMPUS
CCCI 4600

<u>Cost Category</u>	<u>SDSC</u> <u>Expansion</u> <u>Amount</u>	<u>12 kV</u> <u>Electrical</u> <u>Amount</u>	<u>Total</u>	<u>% of</u> <u>Total</u>
Site Clearance	\$ 333,000	\$ 31,000	\$ 364,000	0.8%
Building	29,695,000	553,000	30,248,000	63.2%
Exterior Utilities	2,729,000	2,215,000	4,944,000	10.3%
Site Development	939,000	36,000	975,000	2.0%
A/E Fees	3,249,000	236,000	3,485,000	7.3%
Campus Administration	1,503,000	176,000	1,679,000	3.5%
Surveys, Tests	358,000	23,000	381,000	0.8%
Special Items ^(a)	3,817,000	13,000	3,830,000	8.0%
Contingency	1,636,000	318,000	1,954,000	4.1%
Total	\$ 44,259,000	\$ 3,601,000	\$ 47,860,000	100.0%
Group 2 & 3 Equipment	1,000,000	0	1,000,000	
Total Project	\$ 45,249,000	\$ 3,601,000	\$ 48,860,000	

Statistics*

Gross Square Feet (GSF) ^(b)	79,680
Assignable Square Feet (ASF) ^(b)	50,265
Ratio ASF/GSF (%)	63%
Building Cost/GSF ^(b)	\$373

*Building only (excludes 12kV Electrical)

Comparable University Projects at CCCI 4600

<u>Last</u> <u>Approved</u> <u>CIB Dated</u>	<u>Campus</u>	<u>Project</u>	<u>Ratio</u> <u>gsf/asf</u>	<u>Building</u> <u>Cost/GSF ^(b)</u>
15-Jan-02 26-Sep-03	Berkeley	Seismic Replacement Building 1 & 2195 Hearst Upgrade for Computing Facility	67%	\$322
10-Dec-01	Santa Barbara UC	Engineering-Science Building Benchmark Model	57% 63%	\$374 \$309

- (a) Special items include fees/costs in connection with the Detailed Project Program, the Environmental Impact Report/Long Range Development Plan, the coastal commission review, value engineering, construction review, drawing coordination review, the Division of the State Architect permit, environmental mitigation, special audio visual design consultants, independent structural/seismic review, and interest during construction.
- (b) A gross square feet (GSF) is the total area, including usable area, stairways, and space occupied by the structure itself. An assignable square feet (asf) is the net usable area.

SUMMARY FINANCIAL FEASIBILITY ANALYSIS**Project Title: San Diego Supercomputer Center Expansion**

<u>Total Estimated Project Cost:</u>	\$48,860,000
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Proposed Sources of Funding:

External Funding:	\$47,860,000
Campus Funding:	<u>1,000,000</u>
Total	\$48,860,000

Proposed Financing Terms:

External Financing - \$47,860,000
Interest Rate: 6.125%

Duration: 30 years

San Diego Opportunity Fund Information:

Estimated Annual Revenue (2009-2010)⁽¹⁾

Pre-Off-the-Top Generated (Garamendi)	\$ 13,143,000
Opportunity Funds Generated	<u>40,040,000</u>
Total Estimated Annual Revenue	\$ 53,183,000

Estimated Average Annual Debt Service (2009-2010)⁽¹⁾

Existing Garamendi Debt Service and O&MP Expenditures	\$ 13,143,000
Potential Debt Service on Proposed External Financing	3,524,000
Pledged Expenditures – Other Capital Projects	<u>13,347,000</u>
Total Estimated Annual Expenses	\$ 30,014,000

% Opportunity Fund Pledged for Debt (policy limit 65%)	56%
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Debt Service Coverage	1.77X
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(1) First full year of principal and interest payments for the project