

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of May 21, 2015

APPROVAL OF EXTERNAL FINANCING UNDER FUNDING MECHANISM AB 94 FOR THE 2015-16 BUDGET FOR STATE CAPITAL IMPROVEMENTS

EXECUTIVE SUMMARY

In July 2013, Assembly Bill 94 (AB 94), Chapter 50, Section 8 added sections to the Education Code which allow the University to use State General Fund appropriations as a repayment source, with specified conditions, for certain University-issued revenue bonds. To date, 19 projects have been approved through this process for the 2013-14 and 2014-15 Budgets for State Capital Improvements, and those projects are in various stages of implementation.

For the 2015-16 Budget for State Capital Improvements, AB 94 required that the University submit a detailed request to the Joint Legislative Budget Committee and the Department of Finance by September 1, 2014, of projects proposed to be funded via the AB 94 funding mechanism. The University submitted 15 projects totaling \$297,907,000 as listed in Attachment 1. At their September 2014 meeting, the Regents considered and approved the 2015-16 Budget for State Capital Improvements, comprised of the 15 projects. On April 7, 2015, the University received State approval of these 15 projects.

In this item, the Regents are being asked to: (1) approve the AB 94-related external financing for the 2015-16 Budget for State Capital Improvements of \$296,711,000 plus related interest expense and financing costs with the primary repayment source from certain State appropriations; and (2) for all projects supported by this action that have already received design/California Environmental Quality Act (CEQA) approval, determine that no further CEQA action is required.

The requested action by the Committee on Finance with regard to AB 94-related external financing is pursuant to the Committee's broad budget and debt management authority under Regents Bylaw 12.3. ***This item constitutes financing approval of the State appropriations and does not constitute nor is in lieu of specific project budget, design, or any other approvals required by University policy.***

RECOMMENDATION

The President of the University recommends that the Committee on Finance recommend to the Regents that:

- A. The President of the University be authorized to obtain external financing not to exceed \$296,711,000 (plus related interest expense and financing costs) for the 2015-16 Budget for State Capital Improvements shown in Attachment 1. The President shall require that:
 - (1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
 - (2) The primary source of repayment for the external financing of \$296,711,000 plus related interest expense and financing costs shall be from State General Fund appropriations, pursuant to the Education Code section 924953 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.
 - (3) The general credit of the Regents shall not be pledged.
- B. For all projects supported by this action that have already received design/California Environmental Quality Act (CEQA) approval, the Regents determine that no further CEQA action is required.
- C. The President of the University shall be authorized to execute all documents necessary in connection with the above.

BACKGROUND

The State took action in 2013-14 to pass Assembly Bill No. 94, Chapter 50, Section 8 which added, among other provisions, sections 92493 et seq. to the Education Code. This action provided unprecedented and exceptional flexibility to the University, and some relief during those periods in which the State has not funded capital outlay. With this legislation, the University is able to use its State General Fund allocation, with certain conditions, to finance the design, construction, and equipment of academic facilities to address seismic and life safety needs, enrollment growth, modernization of out-of-date facilities, and renewal or expansion of infrastructure to serve academic programs.

Previous Regents Actions

For the 2015-16 Budget for State Capital Improvements, the University submitted 15 projects totaling \$297.9 million in State capital outlay funds, to allow 15 major capital projects to complete preliminary plans, working drawings, construction, and/or fund equipment (refer to Attachment 1). The submittal to the State, under AB 94, was required by September 1, contingent upon Regents' approval. At their September 2014 meeting, the Regents considered and approved the *2015-16 Budget for State Capital Improvements* that included these

15 projects. The total amount of \$297,907,000 has been lowered to \$296,711,000 to reflect a project's subsequent lower budget.

Current Actions

On April 7, 2015, the University received State approval of the 15 projects that make up the 2015-16 Budget for State Capital Improvements. The 2015-16 program focuses on continuing projects that require funding for completion, and new projects that address critical infrastructure priorities, and seismic, life safety, and modernization needs. As illustrated in Attachment 1, within the overall proposal, seven projects would address seismic and life safety needs, four projects would support modernization, three projects would accommodate previous enrollment growth, and one project would provide infrastructure improvements.

In support of the timely implementation of these 15 projects, the University is seeking approval for the associated external financing of the State capital outlay funds to be repaid by State General Fund appropriations. Based on long-term debt, the total cost of \$296,711,000 for these 15 projects, amortized over 30 years at six percent interest,¹ results in a prospective average annual debt service of \$21,555,000. The actual commencement of debt service payments will depend on individual project milestones and completion.

Should State appropriation funds not be available for any project using the AB 94 mechanism, the President shall have the authority to use any legally available funds to make debt service payments.

Related Actions

The Committee on Grounds and Buildings is considering the following two actions at this May meeting related to two projects in the 2015-16 Budget for State Capital Improvements: (1) approval of an amendment to the budget and external financing for UC San Francisco's Clinical Sciences Building project; and (2) approval of an amendment to the budget and external financing for UC San Diego's Biological and Physical Sciences Building project.

The Committee on Grounds and Buildings is also considering the following actions at this May meeting related to a 2014-15 project previously approved for financing under the AB 94 mechanism, the Berkeley Way West Project (Tolman Hall Seismic Replacement): approval of amendment of the budget and scope, approval of external financing, and approval of the design following action pursuant to CEQA.

CEQA Determination

Five projects supported by this proposed action have received design/CEQA approval: Classroom and Academic Office Building (UCM); Environmental Health and Safety Expansion (UCR); Clinical Sciences Building (UCSF); Coastal Biology Building (UCSC); and Telecommunications Infrastructure Phase B (UCSC). For the aforementioned five projects that

¹ The interest rate is a conservative estimate and is used for illustrative purposes.

have already received design approval, the University has determined that no changes to the previously adopted/certified CEQA documentation is necessary to support the proposed action due to the presence of any changes in the projects, changed circumstances or new information. The remaining projects cannot proceed to construction unless or until design approval is granted following a determination of CEQA compliance.

Key to Acronyms

AB 94	Assembly Bill 94
ANR	Agriculture and Natural Resources
CEQA	California Environmental Quality Act

Attachment 1: 2015-16 Budget for State Capital Improvements

2015-16 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s)
CCCI 6284

Additions shown by underscoring; deletions shown by strikethrough

CATEGORY TYPE (as % of Total State Funds)	CAMPUS	PROJECT	PHASE(s)²	2015-16 STATE FUNDS	ALL NON-STATE FUNDS³
Modernization (25%)	ANR	Intermountain REC Field Laboratory and Multipurpose Facility	C	\$ 1,786	\$100
	UCB	Wheeler Hall	WC	19,400	1,100
	UCR	Batchelor Hall Building Systems Renewal	WC	17,777	
	UCR	Pierce Hall Improvements	PWC	34,680	
Seismic and Life Safety (50%)	UCD	Chemistry Seismic & Life Safety	C	31,076	
	UCI	Fire and Life Safety Improvements Phase 1 ⁴	DC	<u>34,290</u> 35,486	
	UCLA	CHS – SOM West Seismic Renovation	C	25,000	15,000
	UCR	Environmental Health and Safety Expansion	E	369	3,663
	UCSF	Clinical Sciences Building Seismic Retrofit	C	21,735	<u>71,277</u>
	UCSB	Campbell Hall Replacement Building	PWCE	15,787	52,001
Previous Growth (21%)	UCSC	Environmental Health and Safety Expansion	PWC	19,437	15,787
	UCM	Classroom and Academic Office Building	E	4,951	
	UCSD	Biological and Physical Sciences Building	WC	55,800	<u>59,700</u>
Infrastructure (4%)	UCSC	Coastal Biology Building	E	2,000	51,300
	UCSC	Telecommunications Infrastructure Phase B	C	12,623	10,565
TOTAL STATE PROGRAM				\$296,711 \$ 297,907	<u>\$177,605</u> \$149,852

² P= Preliminary Plans, W=Working Drawings, C=Construction, and E= Equipment.

³ These figures represent total non-State funds for the entire project, and include funds subject to related Grounds & Building action items (Clinical Sciences Building and Biological and Physical Sciences Building).

⁴ Amount corrected to match project budget