

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM – CONSENT

For the Meeting of November 16, 2016

APPROVAL OF THE NON-STATE BUDGET AND APPROVAL OF EXTERNAL FINANCING, FRANZ HALL TOWER SEISMIC RENOVATION, LOS ANGELES CAMPUS

EXECUTIVE SUMMARY

The University of California, Los Angeles proposes to provide seismic corrections and program improvements to the Franz Hall Tower, a high-rise structure, which has a Level V seismic performance rating (formerly “Poor”).

Franz Hall Tower’s seismic deficiencies are due to inadequate shear capacity in the above-grade levels. Mandatory Code corrections triggered by the structural work would include disabled access upgrades and fire/life safety improvements. Upon completion, the seismic performance rating would be upgraded to Level III (formerly “Good”).

At its September 2016 meeting, the Finance and Capital Strategies Committee considered a discussion item on the *2017-18 Budget for State Capital Improvements*. The Franz Hall Tower was presented and discussed as one of the projects that would be coming forward for Regents’ approval in November. The total cost of the project is \$50 million, to be funded from a combination of:

- external financing (\$25 million), the subject of this item pertaining to the non-State budget and financing, and
- external financing supported by State appropriations (\$25 million), the subject of the *2017-18 Budget for State Capital Improvements* item.

The campus intends to spend approximately \$5.78 million of external financing in 2016-17 and 2017-18 to complete the preliminary plans and working drawings for the project. By completing this work in advance, the campus will be positioned to go forward with the bid process soon after approval of the University’s *2017-18 Budget for State Capital Improvements* and approval of the 2017-18 State Budget. The campus recognizes that approval of the State funding is not guaranteed, but is willing to take that risk to accelerate the schedule.

Subject to the approval of the *2017-18 Budget for State Capital Improvements*, the Regents are being asked to: (1) approve the non-State budget of \$25 million with the concurrent State budget

funding for a total project budget of \$50 million and (2) approve \$25 million of external financing associated with the non-State budget. Approval of the remaining \$25 million in external financing associated with the funding mechanism provided under sections 92493 through 92496 of the Education Code, as added by Chapter 50, Statutes of 2013 (Assembly Bill 94), and amended by Chapter 22, Statutes of 2015 (Senate Bill 81) will be requested in spring of 2017.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that:

- A. Subject to the approval of the *2017-18 Budget for State Capital Improvements*, the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:
- (1) Los Angeles: Franz Hall Tower Seismic Renovation – preliminary plans, working drawings, and construction – \$50 million from external financing (\$25 million) and external financing supported by State appropriations under sections 92493 through 92496 of the Education Code (\$25 million).
 - (2) The scope of the project shall include the seismic upgrade of the 123,723 gross-square-foot Franz Hall Tower from a performance rating of Level V to Level III. Code corrections triggered by the work would include disabled access upgrades and fire/life safety improvements.
 - (3) The President be authorized to obtain external financing, not to exceed \$25 million plus additional related financing costs, to finance the Franz Hall Tower Seismic Renovation project. The President of the University shall require that:
 - a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - b. As long as the debt is outstanding, general revenues of the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - c. The general credit of the Regents shall not be pledged
- B. The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

BACKGROUND

Franz Hall Tower is part of a three-building complex that was constructed between 1938 and 1967. The 123,723-gross-square-foot tower is an eight-story building (plus penthouse) with three stories below grade that has not been structurally upgraded or renovated since it was built in 1967. Seismic deficiencies are due to inadequate shear capacity in the above-grade levels.

The building accommodates academic programs of the Department of Psychology of the College of Letters and Science. Space types located on the above-grade levels include dry research laboratories, faculty and staff offices, classrooms, meeting rooms, scholarly activity space, and a child care center. The child care center is scheduled to permanently relocate to another on-campus child care facility prior to the start of construction.

PROJECT DESCRIPTION

The proposed seismic strengthening work would be limited to the above-grade levels. The scope of work would include installation of braced shock-absorbing dampers; fiber wrapping and concrete jacketing of select columns; construction of accessible single occupancy restrooms and upgrades along the path of travel in the project area; and provision of a fire control room in the building. Related repairs and restoration scope would include reconfiguration of walls; modifications to building systems; and replacement of ceilings, lighting, and finishes in areas affected by the work. This portion of the project would be funded by external financing supported by State appropriations which is subject to the separate budget approval for the *2017-18 Budget for State Capital Improvements*.

The mandatory corrective work provides an opportunity to make program improvements for the Department of Psychology. Improvements to select areas on the above-grade floors (not directly affected by the seismic scope) would include reconfiguration of walls to improve space utilization and functionality; modifications to building systems; and replacement of ceilings, lighting, and finishes. This portion of the project would be funded with external financing.

Funding Plan and Financial Feasibility

The project budget of \$50 million for preliminary plans, working drawings, and construction will be funded from a combination of external financing (\$25 million) and external financing supported by State appropriations under sections 92493 through 92496 of the Education Code (\$25 million). The campus has funded a portion of the preliminary plans and working drawings with campus funds¹, and will seek reimbursement for the expenditures upon approval of external financing. The project budget is provided in Attachment 1.

¹ Campus funds are specifically from a centrally managed pool of unrestricted funds (non-State, non-tuition). These funds are derived from a variety of sources, including indirect cost recovery on sponsored contracts and grants, gift assessments, and investment earnings.

Financial Feasibility

Approval of the remaining \$25 million in external financing associated with the funding mechanism provided under sections 92493 through 92496 of the Education Code will be requested in spring of 2017.

This action is proposing approval of \$25 million in external financing. Based on long-term debt of \$25 million amortized over 30 years at a six percent tax-exempt interest rate, the estimated annual principal and interest debt service payment for the project would be approximately \$1.8 million. The Summary of Financial Feasibility for the Los Angeles campus is provided in Attachment 2.

Project Schedule

Preliminary plans will commence following this approval action. Consideration of design approval and California Environmental Quality Act (CEQA) compliance will be eligible for delegation to the Chancellor under the delegated process for capital projects. Design/CEQA approval is anticipated in September 2017. Construction is scheduled to commence in July 2018, with completion in June 2020.

Key to Acronyms

CEQA	California Environmental Quality Act
GSF	Gross Square Feet

ATTACHMENTS:

Attachment 1: Project Budget

Attachment 2: Summary of Financial Feasibility

Attachment 3: Project Alternatives

ATTACHMENT 1

**PROJECT BUDGET
FRANZ HALL TOWER SEISMIC RENOVATION
CCCI 6566**

Category	Proposed Budget August 2016	% of Total
Site Clearance	1,951,000	3.9%
Building	38,434,000	76.95%
Exterior Utilities		
Site Development	433,000	0.9%
A/E Fees	3,310,000	13.2%
Campus Administration	1,320,000	5.3%
Surveys, Tests, Plans	700,000	2.8%
Special Items ⁽¹⁾	800,000	3.2%
Interest During Construction	182,000	0.4%
Contingency	2,870,000	11.5%
Total	\$50,000,000	100%
Group 2 & 3 Equipment		
Project Total	\$50,000,000	
Project Statistics	August 2016	
GSF	123,723	
ASF	65,893	
ASF:GSF ratio	53.3%	
Building Cost/GSF	\$311	
Project Cost/GSF	\$404	
Funding Schedule	August 2016	
Preliminary Plans	\$ 3,755,000	
Working Drawings	\$ 2,025,000	
Construction	\$44,220,000	

⁽¹⁾ Special Items include peer reviews, specialty consultants, LEED coordination, hazardous materials survey and documentation, and agency fees.

ATTACHMENT 2**SUMMARY OF FINANCIAL FEASIBILITY**

LOS ANGELES CAMPUS	
Project Name	Franz Hall Tower Seismic Renovation
Project ID	948938
Total Estimated Project Cost	\$25,000,000
Anticipated Interest During Construction (included in total estimated project cost)	\$91,000

PROPOSED SOURCES OF FUNDING	
External Financing – Tax Exempt	\$25,000,000
Total	\$25,000,000

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

Long-term external financing assumptions are listed below

FINANCING ASSUMPTIONS	
External Financing Amount	\$25,000,000
Anticipated Repayment Source	General Revenues of the Los Angeles campus
Anticipated Fund Source	Campus Unrestricted Funds
Financial Feasibility Rate	6.00%
First Year of Payment	2021
Term (e.g. 30 years; indicate if any years interest only)	30 years
Final Maturity	2050
Estimated Average Annual Debt Service	\$1,816,000

Below are results of the financial feasibility analysis for the proposed project using the campus' Debt Affordability Model. The model includes projections of the campus' operations and planned financings. A new Debt Affordability Model with revised metrics was implemented August 1, 2015.

Measure	10 Year Projections	Approval Threshold	Requirement
Modified Cash Flow Margin	1.8% (2025)	$\geq 0.0\%$	Must Meet
Debt Service to Operations	4.1% (2023)	$\leq 6.0\%$	Must Meet 1 of 2
Expendable Resources to Debt	N/A	$\geq 1.00x$	

Modified Cash Flow Margin, Debt Service to Operations, and Expendable Resources to Debt are campus metrics.

PROJECT ALTERNATIVES

Four structural alternatives were developed and evaluated to improve seismic safety for building occupants: (1) interior shear walls; (2) exterior moment frames; (3) interior moment frames; and (4) braced dampers.

- (1) Interior Shear Walls: This alternative would add concrete shear walls around stairwells and elevators to provide the building with additional strength and stiffness. This alternative was not considered viable since it was determined that the walls would need to be extremely thick (18-inches minimum), and significant foundation work and strengthening of the perimeter frame would be required. This alternative would have resulted in the greatest reduction in useable space of all alternatives studied.
- (2) Exterior Moment Frames: This alternative would construct either steel or concrete moment frames on the exterior of the building. While construction of these moment frames would avoid impacts to the interior, they would significantly alter the exterior appearance of the building. In addition, the resulting foundation work would significantly affect the occupancy of the wet laboratories in the basement levels during construction.
- (3) Interior Moment Frames: This alternative would construct concrete moment frames on the interior face of the exterior walls on floors three through eight, fiber wrap the interior columns in the core area on floors three through six, and add concrete jacketing to the freestanding exterior columns on floors one and two. This alternative was not considered cost-effective due to significant construction impacts to the upper floors of the building.
- (4) Braced Dampers: This alternative would install braced dampers (diagonal braces with shock absorbers) within select interior walls on floors three through seven. Dampers would also be installed in the open arcade between select exterior columns on floors one and two. Installation of braced dampers was determined to be the preferred structural scheme since it had the least impact of all the alternatives studied.

Replacement of the building was not considered a viable alternative. The Franz Hall Tower is part of a 238,054-gsf complex comprised of three connected structures: (1) a 32,016-gsf building constructed in 1938; (2) an 81,721-gsf addition constructed in phases between 1961 and 1969; and (3) the 123,723-gsf tower built in 1967. The original building and the addition have Level III seismic performance ratings, and the three basement levels of the tower (accommodating wet laboratories) are not seismically deficient.

The seismic strengthening alternatives described above were developed to identify the least impact to both the interior and exterior of the building and allow portions of the building to remain operational (including the basement levels) during construction. The braced damper approach would allow ranges of floors to be occupied during the work, with occupants temporarily relocated within the Franz complex and other campus facilities.