

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM – CONSENT

For Meeting of September 11, 2012

APPROVAL OF INTERIM FINANCING, DAVIDSON LIBRARY ADDITION AND RENEWAL, SANTA BARBARA CAMPUS

EXECUTIVE SUMMARY

This project is comprised of seismic repairs, life safety upgrades, and renovation of Davidson Library, and the construction of a 63,172 gross square feet (GSF) addition. The existing Davidson Library consists of three interconnected structures. The structural systems of the two oldest structures are seismically deficient (Level V) under the University's Seismic Policy. The project improves the Davidson Library to an acceptable level of seismic safety (Level III). The Library's fire protection system is being upgraded to comply with current code, including the installation of fire sprinklers throughout the entire complex. In addition, general renovations will be performed to ensure the long-term functionality of the Library's operations.

The Santa Barbara campus requests approval for interim financing of \$71,402,000 for construction funding, plus related interest expense and financing costs that will be repaid by a future State lease revenue bond sale. The project will be ready to bid in December 2012 and the campus seeks interim financing in order to award the construction contract without delay.

Interim financing would enable the campus to remain on schedule and benefit from the current positive bid climate. A delay in funding would further affect the budget and the collateral support costs, including campus surge space requirements to accommodate library functions.

The campus expects a construction bid date in December 2012, with construction commencing in March 2013. Interim financing would enable the project to remain on schedule to reach successful completion in the fall of 2015. Interim financing would mitigate any potential delays in lease revenue bond funding.

RECOMMENDATION

The President recommends to the Committee on Grounds and Building that the Regents:

- A. Authorize the President to obtain interim financing for construction funding not to exceed \$71,402,000, plus related interest expense and financing costs, for the

Davidson Library Addition and Renewal project in advance of expected State lease revenue bond funds. The President shall require that:

- (1) The primary source of repayment of requested interim financing that includes the \$71,402,000 plus related interest expense and financing costs shall be from State lease revenue bond proceeds and the alternate source of repayment shall be from the Santa Barbara campus that will support either interim financing or external financing issued by the Regents.
 - (2) The interim financing is authorized only for a maximum period of up to eighteen (18) months after beneficial occupancy, after which no further interest expense or financing costs shall be capitalized.
 - (3) The general credit of the Regents shall not be pledged.
- B. Authorize the President to execute all documents necessary in connection with the above.

BACKGROUND

The Santa Barbara campus requests approval to provide interim financing of \$71,402,000 for construction funding, plus related interest expense and financing costs, and is anticipated to be repaid by the future sale of State lease revenue bonds.

Statement of Need and Project Description

The Davidson Library is fully utilized by thousands of students and faculty who access the library daily. The existing Davidson Library, located near the geographic center of Santa Barbara's main campus, consists of three interconnected structures. The original two-story library was built in the 1950s. The eight-story tower was added in the 1960s and a four-story wing was added in the 1970s.

The project encompasses 159,325 assignable square feet (ASF), consisting of a 44,646 ASF (63,172 GSF) new addition and 114,679 ASF of renovations of the existing library space. The approved project will significantly improve the safety, function, and operations of Davidson Library. The project will correct the existing structural shear wall deficiencies of the two-story wing and eight-story tower sufficient to achieve an acceptable level of seismic safety (Level III) rating under the University's Seismic Policy; it upgrades the fire alarm system and installs fire sprinklers throughout the library complex. The interior renovations will improve space efficiency, create design continuity between buildings, and increase the efficiency of the operations and usability of the library.

The structural systems of the two older buildings are seismically deficient (Level V) under the University's Seismic Policy, and upgrade of the library's fire protection system and the

installation of fire sprinklers are required for compliance with current codes. The project would improve the Davidson Library's seismic rating to Level III. Structural deficiencies in the two-story wing and eight-story tower are related to shear wall construction. The project would correct the two-story wing's discontinuous shear walls and would use a brace-frame system to improve the shear strength of the eight-story tower. The renovation would refurbish select high-use areas within the existing library buildings in concert with the seismic corrections and fire and life-safety upgrades, and the new three-story addition provides critically needed new space.

The campus received Preliminary Plans ("P") funds of \$1,250,000 in general obligation bonds from the State in the 2006-2007 State Budget Act and initiated schematic design. Working Drawing ("W") phase funding of \$1,055,000 in State general obligation bonds was allocated in the 2007-2008 State Budget Act and additional W phase funding of \$1,200,000 in State lease revenue bond funds was appropriated in 2010-11. In 2011, the late discovery of seismic deficiencies in the eight-story tower necessitated a request to the State for an augmentation of \$4,904,000 for construction and \$258,000 for the design of the additional work. The P and W phase funding of \$258,000 was funded from State general obligation bonds. The construction portion of the augmentation funding of \$4,904,000 and the construction funding of \$66,498,000, for a total of \$71,402,000, are proposed to be funded from future lease revenue bonds. Future equipment funding of \$1,075,000 is proposed for State funding through an appropriation in a future State Budget Act. (Refer to Attachment 2 for the detailed funding plan.)

Delays in State Lease Revenue Bond Funding

The \$71,402,000 in construction funding for the Davidson Library Addition and Renewal was to be included in a State Public Works Board (SPWB) bond sale that was scheduled for University projects in fall 2012, and is now expected in spring 2013.

Funding for the original construction appropriation of \$66,498,000 and the augmentation for preliminary plans, working drawings, and construction of \$5,162,000 were reappropriated in the 2012-13 State Budget Act. The State Department of Finance has also proposed that the SPWB approve a Reimbursement Resolution at its December 2012 meeting. If approved, the Reimbursement Resolution will allow the Santa Barbara campus to bid and construct the Davidson Library Addition and Renewal in advance of the sale of State lease revenue bonds. The University successfully sought a statutory amendment to allow the reimbursement of interest expense and financing costs in addition to project costs. As a result of amended Government Code, Section 15849.65, the State may now authorize an additional amount to pay related interest and issuance costs associated with obligations issued or entered into by the Regents of the University of California, and thus may reimburse the interest expense and financing costs in addition to the Davidson Library project costs.

Financial Feasibility / Other Financial Terms

The Santa Barbara campus would need to convert interim financing to long-term external financing via a Regents' external financing action in the event the State does not execute a lease revenue bond issuance to reimburse the interim financing.

In that circumstance, the source of repayment of the debt service and related requirements shall be from the general revenues of the Santa Barbara campus.

Additional financial feasibility information may be found in Attachment 3.

Utilizing University resources for interim financing of the Davidson Library Addition and Renewal poses certain risks to the University. Should State lease revenue bonds not materialize, the Santa Barbara campus would then make a long-term financing commitment through external financing. The campus would come forward with a Regents' action to convert interim financing to external financing, should the State not sell lease revenue bonds for the project within 18 months after project completion.

ATTACHMENTS

Attachment 1: Project Budget

Attachment 2: Funding Plan

Attachment 3: Summary of Financial Feasibility

Attachment 4: Previous and Related Actions

PROJECT BUDGET

CCCI 5565

Cost Category	Amount	% of Total
Site Clearance	2,238,000	3.0%
Building	55,259,000	73.5%
Exterior Utilities	2,556,000	3.4%
Site Development	2,012,000	2.7%
A/E Fees	4,861,000	6.5%
Campus Administration	2,468,000	3.3%
Surveys, Tests	653,000	0.9%
Special Items ¹	1,411,000	1.9%
Contingency	<u>3,707,000</u>	<u>4.9%</u>
<i>Total</i>	75,165,000	100%
Group 2 & 3 Equipment	1,075,000	
Total Project Cost		<u>76,240,000²</u>

Project Statistics

GSF	198,340
ASF	159,325
Efficiency Ratio ASF/GSF	80%
Building Cost/GSF	\$258 ³
Project Cost/GSF	\$360

¹ Special Items includes constructability, Department of State Architect, and Fire Marshal reviews.

² Does not include assumed capitalized interest of \$885,000, which the State will reimburse when lease revenue bonds are sold.

³ Building Cost/GSF and Project /GSF ratios exclude costs for installing fire sprinklers and the alarm system in the areas of the four-story south wing and eight-story central tower that are not being renovated; they also exclude the eight-story seismic component. These exclusions normalize the ratios of cost to square footage, which would otherwise yield skewed results of very low cost per square foot.

FUNDING PLAN

Funding Sources

Project Cost: \$76,240,000

State Funding: \$76,240,000

Funding Schedule:

FUNDED TO DATE

Preliminary plans	State GO Bonds	\$1,250,000
Working drawings	State GO Bonds	\$1,055,000
Working drawings	State LRB (prior sale proceeds)	\$1,200,000
Augmentation (P &W)	State GO Bonds	<u>\$258,000</u>
	<i>SUBTOTAL</i>	\$3,763,000

PROPOSED INTERIM FINANCING

Augmentation (C)	State LRB ⁴	\$4,904,000
Construction	State LRB ⁵	<u>\$66,498,000</u>
	<i>SUBTOTAL</i>	\$71,402,000

Equipment ⁶	State (TBD)	\$1,075,000
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APPROVED TOTAL PROJECT COST **\$76,240,000**

⁴ A SPWB bond sale is expected in spring 2013.

⁵ A SPWB bond sale is expected in spring 2013.

⁶ This phase has not been appropriated, but will be proposed for State funding in a future State Budget Act.

ATTACHMENT 3

SUMMARY OF FINANCIAL FEASIBILITY

Santa Barbara Campus	
Project Name	Davidson Library Addition and Renewal
Project ID	981230
Total Estimated Project Costs ⁽¹⁾	\$71,402,000

Proposed Sources of Funding	
Interim Financing	\$71,402,000
Total	\$71,402,000

Below are results of the financial feasibility analysis for the proposed project using the campus' debt affordability model. The financial projections take into consideration market conditions, new sources of revenue and all previously approved projects.

Financing Assumptions	
Anticipated Repayment Source	General Revenues of the Santa Barbara campus
Anticipated Fund Source	Unallocated Discretionary Budget
Financial Feasibility Rate	6.0%
First Year of Principal (e.g. year 10)	FY 2015
Final Maturity (e.g. 30 years)	30 years
Estimated Average Annual Debt Service	\$5,187,000

Measure	Campus Financing Benchmarks	
	10 Year Projections	Approval Threshold
Debt Service to Operations	6.6% (FY 2016) ⁽²⁾	6.0%
Debt Service Coverage	2.37x (FY 2016)	1.75x
Expendable Resources to Debt	n/a	1.0x

Financing approval requires the campus to meet the debt service to operations benchmark and one of the two other benchmarks for approval.

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

⁽¹⁾ Debt service modeling includes assumed capitalized interest of \$885,000 which the State will reimburse when lease revenue bonds are sold.

⁽²⁾ Financing approval requires the campus to meet the debt service to operations benchmark and one of the two other benchmarks for approval. Campus Debt Service to Operations without \$5,187,000 annual debt service is within benchmark of 6.0 percent (not inclusive of capitalized interest costs). The expected source of repayment for interim financing will be the State lease revenue bonds. Fund sources for external financing shall adhere to University policy on repayment for capital projects.

ATTACHMENT 4

Previous and Related Actions

November 2005: Approval of 2006-2007 State Budget for Capital Improvements including Davidson Library Addition and Renewal.

March 2009: Design approval and adoption of a mitigated negative declaration.

November 2009: Approval of a revised project budget of \$71,078,000 to be provided through State funding.

July 2012: Administrative approval of project scope change and budget augmentation. The scope change addressed the discovery of seismic deficiencies in the eight-story tower and necessary repairs and corrections. This budget augmentation of \$5,162,000 increased the total project cost to \$76,240,000 to be provided by State funding. The additional scope does not impact either the design of the project as approved or the adoption of findings under the California Environmental Quality Act.