

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

DISCUSSION ITEM

For Meeting of September 13, 2017

UNIVERSITY OF CALIFORNIA 2018-19 BUDGET FOR STATE CAPITAL IMPROVEMENTS

EXECUTIVE SUMMARY

The proposed 2018-19 Budget for State Capital Improvements totals \$300.8 million and is supported with an additional \$109.6 million of non-State resources. Consistent with the 2017-18 Budget for State Capital Improvements, the majority of the capital projects in the 2018-19 budget address seismic and life safety issues or enrollment growth. The 2018-19 budget also includes the second phase of a systemwide deferred maintenance program and a capital project that addresses systemwide library storage needs. Four of the eight capital projects have been previously discussed or considered by the Regents:

Campus	Project	Date of Last Regents' Presentation or Action
Berkeley	Giannini Hall Seismic Safety Corrections	March 2017
San Francisco	Health Sciences Instructional & Research Life Safety Improvements	March 2017
Systemwide	Northern Regional Library Facility Phase 4 Expansion	July 2017 ¹
San Diego	Ridge Walk Academic Complex	July 2017

The remaining four projects will be presented to the Regents for discussion at this meeting:

Campus	Project
Davis	Teaching and Learning Complex
Riverside	Student Success Center
San Francisco	Health Sciences Instructional & Research Seismic Retrofit
Santa Cruz	Kresge College Academic

This item serves as the discussion item for the 2018-19 Budget for State Capital Improvements. Under the provisions of the California Education Code, the University has submitted its 2018-19 State capital program to the Legislature and Department of Finance prior to the September 1, 2017 deadline. Final approval of the budget is contingent on future Regental and State approvals.

¹ Approval of preliminary plans funding for the Northern Regional Library Phase 4 Expansion project is being considered at this meeting.

BACKGROUND

In accordance with sections 92493 through 92496 of the Education Code, the University of California is authorized to finance capital expenditures or fund pay-as-you-go capital outlay with its State General Fund support appropriation. The authority allows the University of California to use its State General Fund allocation, with certain conditions, to finance or in the case of pay-as-you-go capital outlay, to directly fund the design, construction, and equipping of academic facilities to address seismic and life safety needs, enrollment growth, modernization of out-of-date facilities, renewal or expansion of infrastructure to serve academic programs, and to fund availability payments, lease payments, installment payments, and other similar or related payments for capital expenditures. These provisions authorize the University to use its State General Fund support appropriation to fund capital outlay and make debt service payments on its General Revenue Bonds issued for projects that have been approved by the State. Since this authority was granted to UC in 2015, the University has received approval from the State Department of Finance and the Legislature totaling \$1.5 billion in State resources (refer to Display A, below).

Display A: State Capital Budget Approvals under Sections 92493 through 92496 of the Education Code (\$M)

2013-14	2014-15	2015-16	2016-17	2017-18	Total
\$132.3	\$277.8	\$296.6	\$653.9 ²	\$161.0	\$1,521.6

Of the \$1.5 billion of approved projects, the University has financed approximately \$275 million in projects under the provisions of the Education Code. This mechanism has given UC greater flexibility and provided a cost benefit in financing these projects under the University's General Revenue Bond (GRB) credit. As is generally the case with University-financed projects, these State projects are initially financed in the University's commercial paper program, providing a low-cost interim source of funding while the projects are under construction, prior to being financed long-term. Financing under the University's GRB credit provides a lower cost of financing compared to the lower-rated State Public Works Board program the State would have used. The University's strong credit has provided access to competitive financing rates. Most recently, in May 2017, the University issued General Revenue Bonds at approximately four percent.³

The projects approved under this authority through 2017-18 have allowed the University to address some of its highest priorities, including life safety improvements and classroom capacity

² The budget for the overall Merced 2020 Project totals \$1,338.48 million. Part of the State supportable scope and budget was included in the non-State project. The State 2020 project was updated to include all State supportable scope and cost. The State 2020 Project budget increase was offset by an equal decrease in the non-State budget resulting in no change to the overall 2020 Project budget. UC has developed a plan that funds the State 2020 project with State General Funds to the extent possible. As a result, UC has allocated an additional \$126.6 million of State resources to fund the project and reduced the non-State resources by \$126.6 million.

³ The General Revenue Bonds Series AV and AW were issued at an all-in true interest cost of 3.8 percent. In the same issuance, the University also financed General Revenue Bonds Series AX, which refunded prior taxable fixed rate notes, at an all-in true interest cost of 3.1 percent and seven-year maturity.

to accommodate increased enrollment, as well as complete State projects that were previously suspended. Eight campuses have approved capital projects to address seismic and life safety needs totaling \$424 million and along with new and renovated laboratory space, three campuses will be adding over 1,200 classroom seats or instructional stations. UC's largest appropriation has been for support of the Merced 2020 Project (\$653.9 million) which will create the capacity to significantly increase enrollment at the Merced campus. Additionally, the Division of Agriculture and Natural Resources has received funding to address renewal or expansion of its Research Extension Centers throughout the state. Refer to Attachment 1 for a list of capital projects approved under the provisions of the Education Code.

Three-Year State Capital Plan

UC is utilizing a three-year planning horizon that started in 2017-18 for its State capital program. The three-year program will be supported with approximately \$600 million in State resources. The program includes \$120 million designated for deferred maintenance, \$450 million for campus projects that address seismic and life safety issues or enrollment growth⁴, and \$30 million for a capital project to construct and equip a systemwide library storage facility. These priorities were examined in the context that campuses and the system benefit from a multi-year approach to budgeting and project planning. Because campuses have an urgent need to address seismic and life safety issues and enrollment growth, the 2018-19 capital program is the largest of the three-year planning horizon. Along with the third year of deferred maintenance, the Berkeley, Santa Barbara, and Santa Cruz campuses and the Division of Agriculture and Natural Resources will propose capital projects for the 2019-20 State capital program. Display B summarizes the three-year program.

Display B: State Capital Program, 2017-18 to 2019-20 (\$M)

	2017-18	2018-19	2019-20	Total
Deferred Maintenance	\$ 50.0 ⁵	\$ 35.0	\$ 35.0	\$ 120.0
Campus Capital Projects	111.0	235.8	103.2	450.0
Systemwide Library Storage Facility		30.0		30.0
Total State Sources	\$ 161.0	\$ 300.8	\$ 138.2	\$ 600.0

2018-19 STATE CAPITAL BUDGET

The proposed 2018-19 Budget for State Capital Improvements totals \$300.8 million and includes \$265.8 million for eight capital projects and \$35 million for the second phase of a systemwide deferred maintenance program. Capital projects are supported with \$109.6 million of non-State resources. The projects address seismic and life safety corrections at the Berkeley, San Diego, and San Francisco campuses; enrollment growth at Davis, Riverside, and Santa Cruz campuses;

⁴ With exception of the Merced campus and the Division of Agriculture and Natural Resources (ANR), each campus received \$50 million. The support for ANR is not included in these totals.

⁵ The higher amount of funding includes \$15 million for facilities condition assessments and \$35 million for deferred maintenance work.

and systemwide library storage needs. Refer to Display C, below and the Attachment 2 for summaries of the projects.

Display C: 2018-19 Budget for State Capital Improvements

Campus	Project	2018-19 State (Phases)⁶	Non-State (Phases)
<i>Continuing Projects (earlier phases funded in 2017-18 State Capital Budget)</i>			
Berkeley	Giannini Hall Seismic Safety Corrections	C	P/W
San Francisco	Health Sciences Instructional & Research Life Safety Improvements	C	
<i>New Projects</i>			
Davis	Teaching and Learning Complex	C	P/W/C/E
Riverside	Student Success Center	P/W/C/E	S/P/W/C/E
San Diego	Ridge Walk Academic Complex	C	P/W/C/E
San Francisco	Health Sciences Instructional & Research Seismic Retrofit	C	P/W
Santa Cruz	Kresge College Academic	W	P
Systemwide	Northern Regional Library Facility Phase 4 Expansion	C/E	P/W
	Total (Capital Projects)	\$265.8 million	\$109.6 million
Systemwide	Deferred Maintenance	35.0 million	
	Total	\$300.8 million	\$109.6 million

Future Actions

Approval of external financing associated with the State General Funds will be subject to a future Regents' action in the spring of 2018. Under provisions of the Education Code, the Department of Finance will submit a final list of approved capital outlay to the University no earlier than April 1, 2018, three months before the commencement of the fiscal year of the planned capital expenditures.

This proposal represents only a small portion of UC's total funding need for State-eligible capital improvements projects for 2018-19. There continues to be a significant need for capital project funding, but the debt service and pay-as-you-go capital outlay for the State projects competes with other demands for State General Funds. While there has been general consensus that the prioritization and submittal of State projects should be managed systemwide, there are also limitations on the level of debt the University can incur. The topic of capital need is expected to be presented to the Regents in the November 2017 presentation of the 2017-27 Capital Financial Plan.

This item serves as the discussion item for the approval of the 2018-19 Budget for State Capital Improvements. It is critical to have the Regents approve the capital outlay plan at the November

⁶ A Key to Acronyms may be found at the end of this document.

COMMITTEE

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meeting so that discussions with the State may proceed. It should be noted, however, that action on the 2018-19 operating budget will be in the future and if there are insufficient funds available in 2018-19 to adequately fund the basic operating budget, the State-funded capital outlay program for 2018-19 may be truncated.

Key to Acronyms

ANR	Division of Agriculture and Natural Resources
GRB	General Revenue Bond
Project phases:	
S	Study
P	Preliminary Plans (includes Schematic and Design Development)
W	Working Drawings
C	Construction
E	Equipment

ATTACHMENTS:

Attachment 1: State Capital Approvals Under Sections 92493 Through 92496 of the Education Code

Attachment 2: Brief Summary of Proposed 2018-19 State Capital Projects

ATTACHMENT 1

**STATE CAPITAL APPROVALS
UNDER SECTIONS 92493 THROUGH 92496 OF THE EDUCATION CODE**

(\$000s)	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Berkeley Way West (Tolman Hall Seismic Replacement)		75,000				75,000
Wheeler Hall Capital Renewal			19,400			19,400
2223 Fulton Seismic Demolition					3,050	3,050
Evans Hall & Hearst Memorial Gym Seismic Safety Study					1,700	1,700
Giannini Hall Seismic Safety Corrections					3,250	3,250
Total (Berkeley Capital Projects)		75,000	19,400		8,000	102,400
Walker Hall Renewal & Seismic Corrections	2,731	27,917				30,648
Chemistry Seismic & Life Safety Corrections		3,482	31,076			34,558
Total (Davis Capital Projects)	2,731	31,399	31,076			65,206
Business Unit 2		1,094				1,094
Primary Electrical Improvements Step 4		19,462				19,462
Fire & Life Safety Improvements Phase 1			34,290			34,290
Interdisciplinary Sciences Building					50,000	50,000
Total (Irvine Capital Projects)		20,556	34,290		50,000	104,846
CHS Seismic Corrections and Fire Life Safety	48,349					48,349
CHS – School of Medicine West Seismic Renovation			25,000			25,000
CHS – NPI Seismic Correction					25,000	25,000
Franz Tower Seismic Renovation					25,000	25,000
Total (Los Angeles Capital Projects)	48,349		25,000		50,000	123,349
Classroom & Academic Office Building	45,144		4,805			49,949
Central Plant/Telecommunications Reliability Upgrade	1,400	15,183				16,583
State 2020 Project				653,900		653,900
Total (Merced Capital Projects)	46,544	15,183	4,805	653,900		720,432
Batchelor Hall Building Systems Renewal			17,777			17,777
Environmental Health and Safety Expansion			369			369
Pierce Hall Improvements			34,680			34,680
Total (Riverside Capital Projects)			52,826			52,826
Campus Life Safety Improvements		49,010				49,010
Biological & Physical Sciences Building			55,800			55,800
Total (San Diego Capital Projects)		49,010	55,800			104,810

	(\$000s)	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Clinical Sciences Building Retrofit & Renovation		2,800		21,735			24,535
HSIR Life Safety Improvements						3,000	3,000
Total (San Francisco Capital Projects)		2,800		21,735		3,000	27,535
Academic Support Facility		26,505					26,505
Infrastructure Renewal Phase 1			12,136				12,136
Campbell Hall Replacement Building				15,787			15,787
Total (Santa Barbara Capital Projects)		26,505	12,136	15,787			54,428
Coastal Biology Building		3,530	64,127	2,000			69,657
Life Safety Upgrades			10,201				10,201
Environmental Health & Safety Facility				19,437			19,437
Telecommunication Infrastructure Phase B				12,623			12,623
Total (Santa Cruz Capital Projects)		3,530	74,328	34,060			111,918
Research & Extension Centers Renewal & Improvements		1,850					1,850
Intermountain Research Extension Center			200	1,786			1,986
Total (ANR Capital Projects)		1,850	200	1,786			3,836
Deferred Maintenance						50,000	50,000
Total Approved Capital Program		132,309	277,812	296,565	653,900	161,000	1,521,586

BRIEF SUMMARY OF PROPOSED 2018-19 STATE CAPITAL PROJECTS

Berkeley. Giannini Hall is a four-story, 46,000-assignable-square-foot concrete building located at the northwest quadrant of the Berkeley campus, approximately one-half mile west of the seismically active Hayward Fault. The building was originally constructed in 1930 and has had no significant structural modifications since that time. Giannini Hall is rated “V” or “Poor.” The proposed *Giannini Hall Seismic Safety Corrections* project would provide the upgraded structure with the strength and ductility to meet the University’s seismic performance rating of “III” or “Good” for a major seismic event. The structural strengthening work will require selective demolition and associated repair or replacement of building components and finishes when necessary to gain access and to accomplish the structural corrections. Giannini Hall is registered on the National Register of Historic Places, the State Historic Resources Inventory and is a City of Berkeley Landmark. In accordance with the campus’ 2014 Long Range Development Plan, any construction done on buildings either registered on the National Register or eligible for registration has to comply with the Secretary of Interior Standards. The University works closely to coordinate with the State Office of Historic Preservation on retrofit projects of historic campus buildings. Construction of the project is projected to begin in the spring or fall of 2018, depending on surge options for the building occupants. Finalization of design plans would begin in late summer 2017, followed by required reviews, preparation of working drawings, and bidding in early 2018. The construction is estimated to take 18 months and will be completed in March 2020. Preliminary plans and working drawings were included in the 2017-18 Budget for State Capital Improvements.

Davis. The proposed *Teaching and Learning Complex* project would develop a new facility on the central UC Davis campus for general assignment classrooms. The project would demolish and build on a site along Hutchison Drive currently occupied by Surge IV, a collection of single-story modular structures installed in 1972. The project would provide approximately 55,000-65,000 gross square feet of classroom space and add approximately 2,000 instructional seats. The proposed project is being presented to the Regents as a discussion item at this meeting.

Riverside. The proposed *Student Success Center* project would provide approximately 39,000 assignable square feet of general assignment classrooms and add approximately 900-1,000 seats, with student advising offices, multipurpose spaces available for use by student organizations, informal study and lounge areas, and support spaces located in the same facility. The proposed project is being presented to the Regents as a discussion item at this meeting.

San Diego. The proposed *Ridge Walk Academic Complex* project would provide approximately 128,000 assignable square feet for departments and programs within the Divisions of Social Sciences and Arts and Humanities. The new space would include general assignment classrooms, research offices, scholarly activity, graduate student offices, as well as conference and collaborative spaces. Funding for preliminary plans and working drawings were approved by the Regents in July 2017.

San Francisco. The proposed *Health Sciences Instruction and Research Seismic Retrofit* project seismically improves utilities and building systems servicing the 440,000-gross-square-foot Health Sciences Instruction and Research complex at the Parnassus Heights campus site. Although the buildings have a seismic rating of Level IV or “Fair”, a major seismic event could cause significant damage and disruption in services if the utility systems and connections between the buildings are not seismically improved. The proposed improvements would upgrade the seismic rating to Level III, minimize risk to the utility infrastructure, ensure the preservation of invaluable research samples, and secure equipment during a seismic event. The proposed project is being presented to the Regents as a discussion item at this meeting.

Separately, the *Health Sciences Instruction and Research Life Safety Improvements* project would remedy life-safety egress impediments with selective and strategic renovations of multiple floors in the Health Sciences Instruction and Research complex. The proposed project would address the most critical egress issues associated with exiting through multiple rooms and dead-end corridors on as many floors as possible, within available funding. The scope of work includes demolition and reconstruction of walls, ceilings, and floors as part of reconfiguring paths of travel; relocation of utilities and infrastructure, as needed; and installation of directional signage as appropriate. The design phase was included in the 2017-18 Budget for State Capital Improvements.

Santa Cruz. The proposed *Kresge College* project would remove nine existing buildings, develop four new buildings, and renovate 15 existing buildings, allowing for programmatic synergies to thrive between academic, student services, and student housing programs. The project will increase density of the site by constructing a new multi-story academic building and two new multi-story student housing buildings. Bed count would increase from 368 to approximately 550 beds, or by 50 percent. Site development will include improved utilities, parking, gathering spaces, and accessibility throughout the college.

Systemwide. The proposed *Northern Regional Library Facility Phase 4 Expansion* project will expand the Northern Regional Library Facility to add capacity to meet the deposit needs of all ten campus libraries until 2030. This project would add a fourth module to house 3.1 million volumes and an adjacent staff area to support program needs. The proposed project was presented to the Regents as a discussion item in July 2017. Approval of preliminary plans funding is being considered by the Regents at this meeting.

Systemwide. The proposed *2018-19 Systemwide State Deferred Maintenance Program* addresses the same general categories as ones addressed in the 2017-18 program. The broad areas of deferred maintenance scope include repair or replacement of elevators, roofs, air ventilation units, hot water/chilled water distribution systems, air handlers, fire alarms, fume hoods, moisture barriers, electrical and switchgear, and others as appropriate. The first phase of the deferred maintenance program was included in the 2017-18 Budget for State Capital Improvements.