The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
COMMITTEE ON FINANCE
January 14, 2004

The Committees on Grounds and Buildings and Finance met jointly on the above date at UCSF–Laurel Heights, San Francisco.

Members present:	*Committee on Grounds and Buildings*: Regents Dynes, Hopkinson, Huerta, Johnson, Kozberg, Montoya, Moores, Murray, and Seigler; Advisory members Anderson and Pitts *Committee on Finance*: Regents Connerly, Hopkinson, Lee, Montoya, Moores, Murray, Preuss, and Sayles; Advisory members Anderson and Pitts
In attendance:	Regents Blum, Bodine, and Davies, Regent-designate Ornellas, Faculty Representative Blumenthal, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Doby, Drake, Gomes, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Córdova, Greenwood, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chandler, and Recording Secretary Bryan

The meeting convened at 3:45 p.m. with Committee on Finance Chair Hopkinson presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 19, 2003 were approved.

2. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL FINANCING FOR COGENERATION ADDITION TO THE CENTRAL PLANT, IRVINE CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the 2003-04 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: Irvine: Cogeneration Addition to the Central Plant – preliminary plans – $1,400,000 to be funded from campus funds

To: Irvine: Cogeneration Addition to the Central Plant – preliminary plans, working drawings, and construction – $24,416,000 to be funded from external financing.

B. The Committee on Finance concur with the recommendation as presented in A. above.

C. The Committee on Finance recommend that the President be authorized to obtain external financing not to exceed $24,416,000 to finance construction and related costs of the Cogeneration Addition to the Central Plant, Irvine campus, subject to the following conditions:

(1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the preliminary plans, workings drawings, and construction periods.

(2) Subject to State approval to use State appropriations for capital purposes (Section 28), repayment of the external financing shall be from the University's annual appropriation from the State of California and other lawfully available funds of The Regents.

(3) The general credit of The Regents shall not be pledged.

D. The Officers of The Regents be authorized to provide certification that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.

E. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

It was recalled that in May 2002, The Regents approved an amendment to the 2001-02 Budget for Capital Improvements and the 2001-04 Capital Improvement Program to include the Cogeneration Addition to the Central Plant project for the Irvine campus. The campus' proposal to pursue cogeneration is an extension of UCI's focus on providing reliable and economical electrical services to campus users. Purchased electricity is a major expense for the campus, and costs have increased significantly in recent years. The campus has undertaken many successful measures in the past decade to reduce utility expenses and to optimize capital investments in utility infrastructure. Cogeneration is the next logical step in UCI's long-term plan to minimize utility costs while maximizing efficient use of natural resources and maintaining or improving the reliability of its utility infrastructure.

With assistance from external consultants, the Irvine campus has completed a comprehensive analysis of the financial and technical parameters of cogeneration and has developed a project proposal specifically tailored to the campus' needs and conditions.

The project is expected to reduce purchased utility costs for State-supported space by an estimated $73.6 million over a 30-year period.

A related State-funded project, slated for construction in 2003-04, will increase the capacity of the campus' cooling system. This project is planned to proceed in tandem with the cogeneration work, and the two projects will be closely coordinated. Together the projects will maximize resources and achieve greater efficiency than would be realized if only one of the projects were performed.

Project Description

The Cogeneration Addition to the Central Plant will generate up to 13.5 megawatts (MW) of electricity for the campus and simultaneously generate an average of 50,000 pounds of steam per hour. The source of cogeneration's efficiency and its financial advantage over purchased electricity is that the energy of natural gas fuel is used to drive a turbine to generate electricity, while the waste heat is used to generate steam. At the time of project completion, 13.5 megawatts will support approximately 70 percent of peak electrical demand for State-supported space. The 50,000 pounds of steam per hour generated will provide approximately 73 percent of Central Plant peak steam demand. The campus will continue to purchase electricity (approximately 10.5 MW) from a utility provider and will generate steam with conventional boilers as needed when demand exceeds cogeneration capacity and during maintenance periods. Auxiliary enterprises and non-State-supported space will continue to purchase utilities and will not benefit from cogeneration services or savings.

Elements of the project will include the following:

- Demolition to clear the site and construction of an 18,000 gsf building to house the equipment adjacent to the existing Central Plant
- Installation of a combustion turbine generator
- Installation of a heat recovery steam generator
- Equipment to limit air pollution emissions, particularly nitrogen oxides
- Installation of related control and interconnect equipment
- High-pressure natural gas supply
- 12kV cabling to interconnect to the campus' 66kV primary substation to provide the electrical connection from the cogeneration plant to the campus' power distribution system
- Related systems

The expected life of the plant is greater than 30 years. The cogeneration addition will be constructed adjacent to UCI's existing Central Plant, a location that is in accordance with the campus' Long Range Development Plan. Construction is expected to commence in January 2005, with completion scheduled for September 2006.

CEQA Classification

In accordance with the California Environmental Quality Act and University procedures for implementation of CEQA, the project has been classified categorically exempt under special provisions for cogeneration projects.

Financing Plan

The total project cost of $24,416,000 will be funded from external financing. Based on an interest rate of 6.125 percent, amortized over 30 years, the annual debt service would be $1,798,000.

Purchased utility cost savings will more than pay for operating and capital costs for this project. Repayment of the external financing will be from the portion of the University's annual State appropriation for the purchase of utilities on the Irvine campus for State-supported space. Campus auxiliary enterprises and non-State-supported space utility needs will continue to be purchased from a utility supplier.

Following Regental approval of the requested actions related to this project, the University will request approval from the Department of Finance to expend State budget support funds toward the debt service for the project. This approval, known as a Section 28 exemption, is required before financing may be obtained. Bids will not be awarded until the Section 28 exemption is approved.

Financial Analysis

To determine the financial feasibility of this project, an economic analysis and risk assessment was performed by an outside consultant experienced in providing similar analyses of other UC cogeneration projects. The analysis, which compared a business-as-usual case with the cogeneration case using the campus' planned plant configuration and load projections, determined that the project will result in savings over 30 years of $32.8 million in net present value terms.

Sensitivity Analysis

Sensitivity analyses prepared to determine the proposed project's economic resiliency to changes in electricity and natural gas prices showed that cogeneration offers benefits to the Irvine campus. The most significant impacts on the economic viability of the project are from natural gas prices moving in opposition to electricity prices. While short-term divergence in pricing is possible, it is reasonable to assume that long-term future gas and electricity commodity prices will retain their parallel correlation. Natural gas generating plants produce about 40 percent of the electricity in California. Further, almost all of the major foreseeable additions to in-state capacity are natural gas generating plants, thus closely tying the price of electricity to natural gas. Therefore, short-term pricing variations should have little economic impact on the overall long-term viability of the project.

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board.

3. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL FINANCING FOR WESTWOOD REPLACEMENT HOSPITAL AND SANTA MONICA/ORTHOPAEDIC REPLACEMENT HOSPITAL AND PARKING STRUCTURE, LOS ANGELES CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the 2003-04 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Los Angeles: Westwood Replacement Hospital – preliminary plans, working drawings, construction, and equipment – $657.7 million to be funded from federal funds ($432.9 million), State matching funds ($44.1 million), State lease revenue bond funds ($125 million), and gift funds ($55.7 million).

To: Los Angeles: Westwood Replacement Hospital – preliminary plans, working drawings, construction, and equipment – $677.7 million to be funded from federal funds ($432.9 million), State matching funds ($44.1 million), State lease revenue bond funds ($125 million), gift funds ($57.7 million), and external financing ($18 million).

From: Los Angeles: Santa Monica/Orthopaedic Replacement Hospital and Parking Structure – preliminary plans, working drawings, construction, and equipment – $260,861,000 to be funded from federal funds ($72,200,000), hospital reserves ($14,900,000), State lease revenue bond funds ($55,000,000) and gift funds ($118,761,000).

To: Los Angeles: Santa Monica/Orthopaedic Replacement Hospital and Parking Structure – preliminary plans, working drawings, construction, and equipment – $275.9 million to be funded from federal funds ($72.2 million), State lease revenue bond funds ($55 million), gift funds ($41.7 million), and external financing ($107 million).

B. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the 2003-04 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

Los Angeles: Westwood Replacement Hospital and Santa Monica/Orthopaedic Replacement Hospital and Parking

Structure – additional construction expenditures, additional contingency and other capital projects associated with construction at the replacement hospitals – to be funded from external financing ($40 million).

C. The Committee on Finance concur with the recommendations of the Committee on Grounds and Buildings to include these projects, as described in A. and B. above.

D. The Committee on Finance recommend that the President be authorized to obtain external financing not to exceed $165 million to finance A. and B. above, subject to the following conditions:

(1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

(2) Repayment of the debt shall be from the gross revenues of the UCLA hospital system.

(3) The general credit of The Regents shall not be pledged.

E. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the 2003-04 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

Los Angeles: Replacement Hospitals Furniture and Equipment – furniture, furnishings, miscellaneous medical equipment, IT systems and other startup costs associated with the two replacement hospitals – to be funded from gift funds ($85 million).

F. The Committee on Finance concur with the recommendation to include this project, as described in E. above.

G. The Committee on Finance recommend that the President be authorized to obtain standby financing not to exceed $59 million and interim financing not to exceed $26 million, for a total of $85 million for E. above, subject to the following conditions:

(1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

(2) Repayment of the debt shall be from gift funds and, in the event such gift funds are insufficient, from the Los Angeles campus' share of the University Opportunity Fund.

(3) The general credit of The Regents shall not be pledged.

H. The Officers of The Regents be authorized to provide a certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.

I. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

The Committees were informed that approval is being sought for $40 million between the two replacement hospitals to fund, if necessary, additional construction expenditures, additional contingency, and other capital expenditures related to the construction of the two hospitals. At this time, $30 million will be shown in the Capital Improvement Budget for the Westwood Hospital, but the final allocation of the $40 million between the hospitals will be determined by the respective need for additional funding. Should the full $40 million capital contingency not be required to complete the two hospital projects, approval would be requested at a later date to reallocate the excess funding to the construction of other related capital projects such as the relocation of the UCLA Medical Center clinical laboratories.

The new 517,000 asf hospital on the Westwood campus will replace the existing Medical Center, Mattel Children's Hospital, and Neuropsychiatric Hospital facilities. To comply with California law enacted after the Northridge earthquake and Office of Statewide Health Planning and Development life safety requirements, the inpatient care services located in these existing facilities must be repaired, renovated, or replaced by 2008.

Westwood Replacement Hospital Background

The Westwood Replacement Hospital was the first project proposed for development as part of the multi-phase seismic reconstruction plan. It is currently 60 percent complete and anticipated to be finished in spring 2005, with full occupancy of the building achieved by the end of summer 2005. Construction was previously anticipated to be substantially complete in mid-summer 2004, with full occupancy of the building achieved by the end of that year.

The requested $20 million budget augmentation will fund the redesign and build-out costs of a portion of the third floor ($10 million) and additional project contingency ($10 million). Approximately 10,320 asf on the third floor were originally designed to house a 13-bed, neuro-rehabilitation services unit. At the July 2002 meeting, the UCLA Medical Center presented a proposal to enter into negotiations with a third party (HealthSouth) to develop an acute care rehabilitation program. The third-floor space was shelled accordingly. As discussed at the November 2003 meeting, while UCLA has discontinued discussion with HealthSouth, it is pursuing negotiations with another third party for the same purpose. In order to meet projected patient demand, the shelled third-floor space will be completed to provide a 16-bed medical/surgical nursing unit. Additional project contingency is required to fund inspection and project management costs related to the schedule extension, construction costs related to the installation of

Group I medical equipment, and other change orders. The $20 million augmentation will be funded from new external financing of $18 million and $2 million in gift funds.

The action also requests approval of a $15,039,000 budget augmentation, change in fund source, and approval of external financing authorization for the Santa Monica/Orthopaedic Replacement Hospital to reflect current estimates of construction completion costs, including costs related to the extension of the project schedule. The approval of $107 million of external financing is requested in order to provide long-term financing for construction. It will fund the requested budget augmentation, replace the earthquake insurance proceeds in hospital reserves as a fund source, and reduce gift funds from $118,761,000 to $41,700,000. The gift funds originally allocated to this project will be used to fund other startup expense related to the two replacement hospitals.

Santa Monica/Orthopaedic Replacement Hospital Background

The Los Angeles campus is also constructing a new hospital on the Santa Monica Medical Center campus to replace the existing West Hospital Tower and the Nethercutt Emergency Center facilities, which suffered significant structural damage as a result of the 1994 Northridge earthquake and do not meet life safety standards. To comply with life safety requirements, the inpatient care services located in these facilities also must be repaired, renovated or replaced no later than 2008. In addition, approximately 83,980 asf will be retained in the existing Merle Norman Pavilion, which would undergo partial renovation and refurbishment. The project includes construction of a replacement central plant and of a 620-car parking structure.

The Santa Monica/Orthopaedic Replacement Hospital Project was the second project proposed for development as part of the multi-phase seismic reconstruction plan presented to The Regents in May 1997. Construction of the Santa Monica/Orthopaedic Replacement Hospital commenced in the fall of 1999, with the first phase of renovation of the Merle Norman Pavilion completed a few months later. Construction of the parking structure started in March 2000 and was completed in April 2001. Construction of the replacement central plant started in July 2000 and was completed in November 2003, allowing for the decommissioning and demolition of the existing central plant. The construction contract for the replacement hospital facilities was awarded in February 2002, and construction on the Orthopaedic Wing started later that spring. The start of construction of other wings was significantly delayed by the delayed completion of the replacement central plant. Substantial completion of the replacement facilities is anticipated to be achieved in the fall of 2006, with the demolition of the vacated West Hospital Tower and the construction of final site improvements completed in early 2008.

The budget augmentation of $15,039,000 will result in a total project cost of $275.9 million. The augmentation will fund inspection, project management and construction management costs related to the schedule extension, construction costs related to the installation of Group I medical equipment, and other construction change orders.

Replacement Hospitals' Furniture and Equipment

It is proposed to retain $85 million of standby and interim financing of the $91.1 million originally approved in the July 2001 Regents item for a new project which would have otherwise been funded with hospital reserves. The money will provide financing for the gifts allocated from the hospital construction in order to fund furniture, furnishing, medical equipment, IT systems, startup costs, and other expenditures related to the two replacement hospitals.

Gift funds required for construction of the replacement hospitals and to fund furniture and equipment costs total $184.4 million. The campus has determined that the reallocation of funds is allowed under the terms of the gifts. The campus requests $59 million of standby financing to support pledges received but not collected and interim financing of $26 million for pledges yet to be raised. To the extent that the campus obtains additional gift funds prior to the completion of the project, the drawdown against the interim financing commitment will be reduced or outstanding balances will be prepaid. The campus anticipates that it will be possible to collect the pledges received for this project, but in the event the collection is insufficient, the campus has pledged Opportunity Funds as an additional source of repayment. Should the campus be unable to raise the additional pledges, conversion of the interim financing to long-term financing, which would result in estimated annual debt service of $1,914,200 based on 6.125 percent for 30 years, will be sought. The campus is within prescribed Opportunity Fund pledge and payment tests.

Financial Feasibility-External Financing

In fiscal year 2007-08, the first full year of principal and interest payments on the new financing, outstanding long-term debt will total approximately $303 million. Cash available for debt service is anticipated to be $124.1 million.

The costs and benefits of future capital projects included in the Hospital System's long-term capital plan, including the cost of medical equipment for the two replacement hospitals, are factored into all the financial calculations for the project. The plan includes projects which have not yet been approved, and which will be regularly reevaluated as to need, scope, and cost. Future projects will be deferred or eliminated as appropriate and as necessary to ensure the hospital's financial viability.

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 3:46 p.m.

Attest:

Secretary