

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM – CONSENT

For Meeting of January 22, 2014

AMENDMENT OF THE BUDGET AND APPROVAL OF EXTERNAL FINANCING, LI KA SHING CENTER, BERKELEY CAMPUS

EXECUTIVE SUMMARY

The Li Ka Shing Center (LKS) is a 122,390 assignable square foot (204,650 gross square foot) building that supports interactive, multidisciplinary research in the mechanisms of human disease. The research focuses on preventing the root causes of diseases such as cancer, Alzheimer's, HIV, and tuberculosis. The LKS project was originally designated and approved as the Biomedical and Health Sciences Building project.

The approved budget for LKS is \$266,953,000 and the approved funding plan included the authorization to utilize up to \$39,807,500 in interim financing to cover gifts yet to be raised. At this time, the campus requests approval of the conversion of \$30,898,100 in interim financing into external financing for unrealized gifts, as well as a reduction of the total project budget to \$255,755,000. The external financing will be repaid from the general revenues of the campus. The campus also requests approval for \$3.6 million in standby financing for a pledged gift expected to be received in the first quarter of 2014. The standby financing will be repaid by the pledged gift upon receipt.

The Regents are being asked to: (1) approve a reduction in the project budget to \$255,755,000 to be funded from gifts (\$65 million), California Institute for Regenerative Medicine grant funds (\$17,602,500), campus funds (\$1 million), and external financing (\$172,152,500); (2) approve \$30,898,100 of additional external financing; and (3) approve \$3.6 million in standby financing.

RECOMMENDATION

1. The President recommends to the Committee of Grounds and Building that the Regents:
 - A. Amend the 2013-14 Budget for Capital Improvements and the Capital Improvements Program as follows:

From: Berkeley: Biomedical and Health Sciences Building – preliminary plans, working drawings, and construction – \$266,953,000, to be funded from

gifts (\$104,807,500), California Institute for Regenerative Medicine grant funds (\$17,602,500), campus funds (\$1 million), and external financing (\$143,543,000).

To: Berkeley: Li Ka Shing Center – preliminary plans, working drawings, and construction – \$255,755,000, to be funded from gifts (\$65 million), California Institute for Regenerative Medicine grant funds (\$17,602,500), campus funds (\$1 million), and external financing (\$172,152,500).

- B. Authorize the President to obtain additional external financing not to exceed \$30,898,100 for the project for a total amount of external financing for the project of \$172,152,500. The President shall require that:
- (1) As long as the debt is outstanding, the general revenues of the Berkeley campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - (2) The general credit of the Regents shall not be pledged.
- C. Authorize the President to obtain standby financing not to exceed \$3.6 million for the project. The President shall require that:
- (1) The primary repayment source will be receipt of gifts. If gifts receipts are insufficient, the general revenues of the Berkeley campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - (2) The general credit of the Regents shall not be pledged.
- D. Authorize the President to execute all documents necessary in connection with the above.

BACKGROUND

The Li Ka Shing Center (LKS) is a 122,390 assignable square foot (asf) (204,650 gross square foot [gsf]) building that supports interactive, multidisciplinary research in the mechanisms of human disease. The research focuses on preventing the root causes of diseases such as cancer, Alzheimer's, HIV, and tuberculosis.

The project was initially approved by the Regents as the Biomedical and Health Sciences Building in March 2007, with a total project budget of \$256,653,000. Since then, the project had three separate actions that amended the budget to a current total of \$266,953,000 funded from gifts (\$104,807,500), California Institute of Regenerative Medicine grant (\$17,602,500), campus funds (\$1 million), and external financing (\$143,543,000). Please see Attachment 3 for a funding breakdown of all budget approvals associated with this project.

The building was constructed in four steps. Step 1 included demolition of Warren Hall and construction of the building shell with finished exterior and core building infrastructure. Step 2 built out spaces in the basement, first and fifth floors to house vivaria, imaging facilities, biosafety laboratories, faculty research laboratories, three instructional laboratories, administrative and academic offices, and building functions serving the operational needs of all programs in the building. Step 3 built out laboratory and office space on levels 3 and 4 to house a new Center for Stem Cell Research. Step 4 built out the balance of the space, including faculty research laboratories, on level 2 and a 299-seat auditorium.

The building was partially occupied in the fall of 2011 and a Notice of Completion was filed in January 2013. However, minor work is still ongoing and includes modifications to air handling units, corrections to cooling towers, addition of steam pressure release valves, relocation of a laboratory, and imaging suite build-out. The minor work is expected to be complete by March 2014 and will be funded within the budget totaling \$255,755,000.

Request for External Financing and Standby Financing

The February 2009 Regents item addressed the possibility of the campus not being able to raise the full \$104,807,500 in gifts appropriated for the project. The item directs the campus to return to the Regents if it needs to convert \$39,807,500 in interim financing to external financing to cover the remaining portion of the gift funds. At this point in time, the campus has been unable to realize the full amount in anticipated gifts. To date, the campus has received \$61.4 million in gifts, and expects to receive approximately \$3.6 million in first quarter 2014 to fulfill a remaining pledge. The \$3.6 million will complete a donor's \$25 million pledge that has been received over the life of the project.

The shortfall in gifts is primarily because of the economic downturn during the fundraising timeframe. The original goal of over \$100 million in gifts was established prior to the financial crisis. When the financial crisis started in the fall of 2008, gift-raising for the campus became very difficult. By the time the financial crisis slightly subsided in 2011, the project was partially occupied and named after a major donor, making it even more challenging for the campus to raise additional gifts.

The Berkeley campus requests the conversion of \$30,898,100 of interim financing into external financing to account for unrealized gifts. Because the entire project will be completed under budget, the remaining \$8,909,400 of gifts not realized is included as part of the total budget reduction of \$11,198,000. The campus also requests standby financing of up to \$3.6 million for the remaining pledge to be received in February 2014. The following is the status of the gift funds received thus far.

Gift Funds

Cash	\$61,428,568
Documented pledge	\$3,571,432
<hr/> Total	<hr/> \$65,000,000

State Public Works Board Restructuring

At the July 2013 meeting, the Regents authorized the University to restructure existing State Public Works Board (SPWB) debt issued on behalf of the University under the UC's General Revenue Bond credit. With this approval, the budget for the project was amended so that the amount of external financing included the amount appropriated under the SPWB debt.

When the University's SPWB debt was restructured in October 2013, \$50,411,400 of SPWB bonds for the project were restructured as General Revenue Bonds. This was a result of the project only drawing \$50,411,400 of the authorized \$52.7 million of SPWB bonds at the time. The campus' request for the conversion of \$30,898,100 in interim financing to external financing includes the approximately \$2.3 million of funds that was non-expended SPWB bonds but was a part of the restructuring as a whole.

Decrease in Project Budget

The campus is also requesting a decrease in the project budget from \$266,953,000 to \$255,755,000. This budget reduction is the result of cost savings achieved through substitution of materials, value engineering, and procurement costs coming in below the estimate for the project. Additionally, there are a couple of funding changes within the categories of the project budget, as shown in Attachment 1. This includes a \$9,672,000 increase in construction costs covered by the project's \$16,836,000 contingency reserve, which has been reduced to \$300,000 with the project nearing completion of all associated work.

ATTACHMENTS follow

- Attachment 1: Project Budget
- Attachment 2: Summary of Financial Feasibility
- Attachment 3: Project Approval History and Funding Plan

ATTACHMENT 1

PROJECT BUDGET

Category	Approved Budget February 2009	Budget Change Request	Proposed Budget January 2014	% of Total
Site Clearance	\$9,450,000	\$0	\$9,450,000	3.7%
Building	186,216,000	9,672,000	195,888,000	76.6%
Exterior Utilities	200,000	0	200,000	0.1%
Site Development	4,580,000	-626,000	3,954,000	1.5%
Fees	19,565,000	-1,055,000	18,510,000	7.2%
Campus Administration	7,710,000	0	7,710,000	3.0%
Surveys, Tests, Plans	1,970,000	-191,000	1,779,000	0.7%
Special Items	6,726,000	-884,000	5,842,000	2.3%
IDC	7,700,000	0	7,700,000	3.0%
Contingency	16,836,000	-16,536,000	300,000	0.1%
TOTAL PWC	\$260,953,000	-\$9,620,000	\$251,333,000	98.7%
Group 2&3 Equipment	6,000,000	-1,578,000	4,422,000	1.7%
TOTAL PROJECT BUDGET	\$266,953,000	-\$11,198,000	\$255,755,000	100%

Project Statistics

February 2009

January 2014

GSF	204,650	204,650
ASF	122,390	122,390
Efficiency Ratio ASF/GSF	60%	60%
Building Cost /GSF	\$910	\$962
Project Cost/GSF	\$1,275	\$1,233

SUMMARY OF FINANCIAL FEASIBILITY

LI KA SHING CENTER	
Project Name	Li Ka Shing Center
Project ID	912129
Total Estimated Project Costs	\$255,755,000

PROPOSED SOURCES OF FUNDING	
Gifts	\$65,000,000
CIRM grant	\$17,602,500
Campus funds	\$1,000,000
External financing	\$172,152,500
Total	\$255,755,000

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

Section I. External Financing

FINANCING ASSUMPTIONS	
Anticipated repayment source	General revenues of the Berkeley campus
Anticipated fund source	Campus funds
Financial feasibility rate	6.00%
First year of principal	FY 2014
Final maturity	FY 2043
Term	30 years
Estimated average annual debt service (for \$30,898,100 external financing)	\$2,244,000

Below are results of the financial feasibility analysis for the proposed project using the campus' Debt Affordability Model. External financing approval requires the campus to meet the debt service to operations benchmark and one of the two other benchmarks for approval. The financial projections take into consideration market conditions, new sources of revenue and all previously approved projects. The corresponding campus Debt Affordability Model has been submitted to Capital Markets Finance at UCOP.

Measure	CAMPUS FINANCING BENCHMARKS	
	10 year projections	Approval threshold
Debt service to operations	5.4% (max in 2017)	6.0%
Debt service coverage	N/A	1.75x
Expendable resources to debt	1.27x	1.00x

LI KA SHING
PROJECT BUDGET APPROVAL HISTORY AND FUNDING PLAN

REGENTS ACTION	GIFTS	SPWB BONDS (also known as LRBs)	EXTERNAL FINANCING (via Debt Restructuring)	EXTERNAL FINANCING	CIRM GRANT	CAMPUS FUNDS	TOTAL
November 2006: Preliminary Plans							
<i>Action</i>	\$ 6,500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,500,000
Approved Budget	\$ 6,500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,500,000
March 2007: Budget Approval (PWCE)							
<i>Action</i>	\$ 122,400,000	\$ 52,700,000	\$ -	\$ 75,053,000	\$ -	\$ -	\$ 250,153,000
Approved Budget	\$ 128,900,000	\$ 52,700,000	\$ -	\$ 75,053,000	\$ -	\$ -	\$ 256,653,000
July 2008: Budget Amendment, Augmentation, and Increase in External Financing							
<i>Action</i>	\$ (20,183,500)	\$ -	\$ -	\$ 8,500,000	\$ 20,183,500	\$ 1,000,000	\$ 9,500,000
Approved Budget	\$ 108,716,500	\$ 52,700,000	\$ -	\$ 83,553,000	\$ 20,183,500	\$ 1,000,000	\$ 266,153,000
February 2009: Budget Amendment, Augmentation, and Increase in External Financing							
<i>Action</i>	\$ (3,909,000)	\$ -	\$ -	\$ 7,290,000	\$ (2,581,000)	\$ -	\$ 800,000
Approved Budget	\$ 104,807,500	\$ 52,700,000	\$ -	\$ 90,843,000	\$ 17,602,500	\$ 1,000,000	\$ 266,953,000
July 2013: Debt Restructuring							
<i>Action</i>	\$ -	\$ (52,700,000)	\$ 52,700,000	\$ -	\$ -	\$ -	\$ -
Approved Budget	\$ 104,807,500	\$ -	\$ 52,700,000	\$ 90,843,000	\$ 17,602,500	\$ 1,000,000	\$ 266,953,000
January 2014: Proposed Budget Amendment and Increase in External Financing							
<i>Proposed Action</i>	\$ (39,807,500)	\$ -	\$ (2,288,600)	\$ 30,898,100	\$ -	\$ -	\$ (11,198,000)
Proposed Budget	\$ 65,000,000	\$ -	\$ 50,411,400	\$ 121,741,100	\$ 17,602,500	\$ 1,000,000	\$ 255,755,000
BUDGET REQUEST							
* Reduction in budgeted Gift Funds from unrealized gifts							
* Reduction in the Financing (associated with the debt restructuring) from unspent funds							
* Increase in External Financing to cover a portion of the unrealized gifts and the unspent LRB funds							
* Gift budget includes \$3.6 million in standby financing for the remaining pledge to be received in February 2014							
* Reduction in total project budget							