

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of May 20, 2015

**AMENDMENT OF THE BUDGET AND APPROVAL OF EXTERNAL FINANCING,
BIOLOGICAL AND PHYSICAL SCIENCES BUILDING, SAN DIEGO CAMPUS**

EXECUTIVE SUMMARY

The Biological and Physical Sciences Building project is for construction of approximately 73,200 assignable square feet (126,000 gross square feet) of teaching laboratory and service space; research and scholarly activity space; and academic and administrative office, support, and conference space. The proposed facility would provide modern instruction and research facilities for programs in the Division of Biological Sciences and the Chemistry/Biochemistry Department. This project is needed to address existing and future space needs associated with program growth in these disciplines.

In March 2014, the Regents approved preliminary plans funding of \$4.5 million from campus funds. The project was included in the University of California *2015-16 Budget for State Capital Improvements* that was approved by the Regents in September 2014. The approved project budget was for \$111.6 million, funded with external financing (\$46.7 million), external financing supported by State appropriations (\$55.8 million), and campus funds (\$9.1 million).

As part of the request for approval of external financing, the campus is requesting to amend the budget by \$3.9 million to include the estimated interest during construction associated with the debt. The project scope remains consistent with the prior approval.

The Regents are being asked to: (1) approve a project budget of \$115.5 million; and (2) approve \$50.6 million in external financing. The remaining \$55.8 million in external financing will be supported by State appropriations and is being addressed in the May 2015 Committee on Finance item that requests approval of external financing under funding mechanism Assembly Bill 94 (AB 94)¹.

¹ The State passed legislation in 2013-14, Assembly Bill No. 94, Chapter 50, Section 8 which added, among other provisions, sections 92495 et seq. to the Education Code. This legislation allowed the University to use its State General Fund allocation with certain conditions to finance the design, construction and equipment of academic facilities to address seismic and life safety needs, enrollment growth, modernization of out-of-date facilities, or renewal or expansion of infrastructure to serve academic programs.

RECOMMENDATION

The President of the University recommends that the Committee on Grounds and Buildings recommend to the Regents that:

1. Subject to the concurrence of the Committee on Finance, the 2015-16 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:
 - From: San Diego: Biological and Physical Sciences Building – preliminary plans, working drawings, construction and equipment – \$111.6 million funded from external financing (\$46.7 million), external financing supported by State appropriations under the Assembly Bill (AB) 94 mechanism (\$55.8 million), and campus funds (\$9.1 million).
 - To: San Diego: Biological and Physical Sciences Building – preliminary plans, working drawings, construction and equipment – \$115.5 million funded from external financing (\$50.6 million), external financing supported by State appropriations under the AB 94 mechanism (\$55.8 million), and campus funds (\$9.1 million).
2. The President of the University be authorized to obtain external financing in an amount not to exceed \$50.6 million. 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, the general revenues of the San Diego campus shall be maintained in amounts sufficient to pay the debt service and to meet the requirements of authorized financing.
 - C. The general credit of the Regents shall not be pledged.
3. 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

The Biological and Physical Sciences Building would provide: teaching laboratory and service space; research and scholarly activity space; and academic and administrative office, support, and conference space for the Division of Biological Sciences and the Chemistry/Biochemistry Department (within the Division of Physical Sciences). The Division of Biological Sciences and the Chemistry/Biochemistry Department have instruction and research programs that have space shortages that are hindering these programs.

Between fall 2003 and fall 2013, the number of undergraduate students enrolled as majors within the Division of Biological Sciences and the Chemistry/Biochemistry Department has increased significantly. Since fall 2003, the number of students enrolled as Biology majors has increased by almost 2,000 students (a 64 percent increase). The number of students majoring in Chemistry/Biochemistry has increased by more than 400 students (a 57 percent increase) over the same period of time. The campus, however, does not have enough instruction and research laboratories to support the additional students in these programs. This impacts time-to-degree for the students and forces the campus to limit the number of students who could declare these fields as their major. This is particularly concerning considering these popular majors are expected to increase by approximately 20 percent by fall 2020 as more students prepare to pursue expanding career opportunities in a broad array of biological and physical sciences fields.

To support enrollment in these disciplines, faculty positions (including graduate and post-doctoral fellows) are expected to increase by at least ten percent in this decade for both the Division of Biological Sciences and the Chemistry/Biochemistry Department. This increase in faculty positions will fill current vacancies and meet future demands, consistent with the campus' academic plan.

Given the need, the campus sought approval from the Regents in March 2014 to proceed with preliminary plans using campus funds. This project was included in the University of California 2015-16 Budget for State Capital Improvements. The project budget of \$111.6 million was approved by the Regents at their September 2014 meeting and submitted to the State for inclusion in the University's 2015-16 State Capital Outlay request. At this time, the campus is requesting approval of external financing and amendment of the budget by \$3.9 million to include the estimated interest during construction associated with the debt.

Financial Feasibility

The total project budget for preliminary plans, working drawings, construction, and equipment is estimated to be \$115.5 million, funded from external financing (\$50.6 million), external financing supported by State appropriations under the AB 94 mechanism (\$55.8 million), and campus funds (\$9.1 million).

Approval of the financing for \$55.8 million supported by State appropriations is concurrently being considered by the Committee on Finance within an action to approve external financing for the systemwide 2015-16 State Capital Program. That action constitutes financing approval for

only that portion supported by State appropriations. This project was included in the State's April 7, 2015 approval of the University's 2015-16 State Capital Outlay Program.

This action is proposing approval of \$50.6 million in external financing and incorporates the \$3.9 million of estimated interest during construction that was not included in the original budget approved by the Regents. Based on long-term debt of \$50.6 million amortized over 30 years at 6.0 percent interest, the estimated annual principal and interest debt service payment for the project would be approximately \$3,657,000. The Summary of Financial Feasibility is provided in Attachment 3.

This action is contingent upon the approval of the Committee on Finance action referenced above. The campus cannot implement the proposed funding plan for this project without approval of both this item and the action under consideration by the Committee on Finance.

Project Schedule

The project is currently in the Preliminary Plans phase. The campus intends to submit the project to the Committee on Grounds and Buildings for approval of design and associated California Environmental Quality Act compliance in summer 2015. It is estimated that construction would commence in June 2016, with completion by September 2018.

Key to Acronyms

AB 94	Assembly Bill 94
ASF	Assignable Square Feet
C	Construction
E	Equipment
GSF	Gross Square Feet
P	Preliminary Plans
W	Working Drawings

ATTACHMENTS:

- Attachment 1: Project Budget - below
- Attachment 2: Funding Plan - below
- Attachment 3: Summary of Financial Feasibility - below
- Attachment 4: Previous Actions - below

ATTACHMENT 1

**PROJECT BUDGET
BIOLOGICAL AND PHYSICAL SCIENCES BUILDING
CCCI 6284**

Cost Category	Approved Budget Sept. 2014	Amendment Request	Proposed Budget May 2015	% of Total
Site Clearance	\$537,000	\$0	\$537,000	0.5
Building	83,919,000	0	83,919,000	75.7
Exterior Utilities	3,065,000	0	3,065,000	2.8
Site Development	2,225,000	0	2,225,000	2.0
A/E Fees ⁽¹⁾	7,129,000	0	7,129,000	6.4
Campus Administration ⁽²⁾	2,855,000	0	2,855,000	2.6
Surveys, Tests, Plans	1,477,000	0	1,477,000	1.3
Special Items (excl. financing costs) ⁽³⁾	1,343,000	0	1,343,000	1.2
Financing Costs	0	3,900,000	3,900,000	3.5
Contingency	4,450,000	0	4,450,000	4.0
<i>Total P-W-C</i>	107,000,000	\$3,900,000	\$110,900,000	100%
Groups 2 & 3 Equipment	4,600,000	0	4,600,000	
Total Project	\$111,600,000	\$3,900,000	\$115,500,000	

Project Statistics:	Sept. 2014	May 2015
GSF ⁽⁴⁾	126,000	126,000
ASF ⁽⁴⁾	73,200	73,200
Efficiency Ratio: ASF/GSF	58%	58%
Building Cost/GSF	\$ 666	\$ 666
Project Cost/GSF ⁽⁵⁾	\$ 849	\$ 880

Notes

- (1) Fees include Executive Architect and other professional design contract costs.
- (2) Campus Administration includes project manager, planning, engineering and design review, and contracts administration.
- (3) Special items include: environmental review and documentation, coastal commission process fees, plan check fees, peer reviews, and specialty consultants (seismic, ADA compliance, enhanced commissioning).
- (4) Gross square feet (GSF) is the total area, including usable area, stairways, and space occupied by the structure itself. Assignable square feet (ASF) is the net usable area.
- (5) Project Cost excludes Group 2 & 3 Equipment.

FUNDING PLAN

Project Cost	Sept. 2014	May 2015	Change
External Financing	\$46,700,000	\$50,600,000	\$3,900,000
External Financing: State Appropriations ⁽¹⁾	\$55,800,000	\$55,800,000	\$0
Campus Funds ⁽²⁾	\$9,100,000	\$9,100,000	\$0
Total	\$111,600,000	\$115,500,000	\$3,900,000

Funding Schedule	Sept. 2014	May 2015	Change
Preliminary Plans (P)	\$4,500,000	\$4,500,000	\$0
Working Drawings (W)	\$5,600,000	\$5,650,000	\$50,000
Construction (C)	\$96,900,000	\$100,750,000	\$3,850,000
Equipment (E)	\$4,600,000	\$4,600,000	\$0
Total	\$111,600,000	\$115,500,000	\$3,900,000

Notes

- ⁽¹⁾ Being addressed in the May 2015 Committee on Finance item requesting Approval of External Financing under Funding Mechanism AB 94.
- ⁽²⁾ Campus funds include Short Term Investment Pool (STIP) earnings for the preliminary plans phase and Non-Resident Supplemental Tuition for equipment.

SUMMARY OF FINANCIAL FEASIBILITY

San Diego Campus	
Project Name	Biological and Physical Sciences Building
Project ID	963240
Total Estimated Project Costs	\$115,500,000
Anticipated Interest During Construction (included in estimated project cost)	\$3,900,000

Proposed Sources of Funding	
External Financing – Tax-Exempt	\$50,600,000
External Financing – State Appropriations under AB 94 Funding Mechanism	\$55,800,000
Campus Funds	9,100,000
Total	\$115,500,000

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	\$50,600,000
Anticipated Repayment Source	General Revenues of the San Diego Campus
Anticipated Fund Source	Campus Funds
Financial Feasibility Rate	6%
First Year of Principal (e.g. year 10)	FY 2020
Term (e.g. 30 years)	30 years
Final Maturity	FY 2049
Estimated Average Annual Debt Service	\$3,657,000

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. Capital Markets Finance is working on a revised version of the Debt Affordability Model for campuses that may have revised benchmarks and approval thresholds as a result of general revenue pledge changes.

Measure	Campus Financing Benchmarks	
	10 Year Projections (as of 4/14/2015)	Approval Threshold
Campus Debt Service Coverage	2.40x (min, FY 15-16)	1.75x (min)
Debt Service to Operations	5.4% (max, FY 15-16)	6.0% (max)

The metrics used to determine financing feasibility are defined below.

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

PREVIOUS ACTIONS

March 2013	Regents Approved Preliminary Plans Budget (P)
September 2014	Regents Approved Project Budget under the Approval of University of California 2015-16 Budget for State Capital Improvements
April 2015	State Approval of Construction Funds under AB 94 for FY 2015-16