

## Office of the President

### TO MEMBERS OF THE COMMITTEES ON GROUNDS AND BUILDINGS AND FINANCE:

#### ACTION ITEM

*For Meeting of November 19, 2015*

### APPROVAL OF UNIVERSITY OF CALIFORNIA 2016-17 BUDGET FOR STATE CAPITAL IMPROVEMENTS, MERCED CAMPUS

#### EXECUTIVE SUMMARY

In accordance with Sections 92493, *et seq.* of the Education Code, the University submitted its *2016-17 Budget for State Capital Improvements* to the Department of Finance and Joint Legislative Budget Committee consisting of one capital outlay project to be funded in the 2016-17 fiscal year. The project, *Merced State 2020 Project*, totals \$527.3 million and consists of approximately 415,800 assignable square feet (asf).

The *Merced State 2020 Project* is a portion of the larger 918,900 asf comprehensive Merced 2020 Project (2020 Project) that will provide new academic, research, residential, student support, and infrastructure facilities in an adaptable, multi-building, joint-use environment. This Project is needed in order for the Merced campus to accommodate 10,000 students by the year 2020. The 2020 Project will be procured using a Design-Build-Finance-Operate-Maintain delivery model, in which the Developer would be responsible for managing the Design-Build contractor, design professionals, and Operations and Maintenance contractor. The Developer would also fund a portion of the project. The University would make availability payments to the Developer for (i) the capital component funded by the Developer and, (ii) the costs associated with the Developer's maintenance, operation, and renewal obligations.

The *Merced State 2020 Project* is proposed to be funded with University external financing (\$400 million) and Developer funding (\$127.3 million). State General Funds would be used to service the debt on the University financing. With respect to the Developer funding, State General Funds would be the source of repayment for the capital component of the availability payments made to the Developer, subject to the provisions of Section 92493, *et seq.* of the Education Code.<sup>1</sup> This funding would provide academic facilities and campus operations, as well as the infrastructure that is proportionate to this State-supportable space. State funds will not support the non-State supportable capital costs associated with the larger 2020 Project.

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<sup>1</sup> Sections 92493 through 92496 of the Education Code were added in 2013 by Assembly Bill 94 that allows the University of California to use its State General Fund allocation to finance capital projects. In 2015, Senate Bill 81 amended section 92493 to allow the use of State General Funds for availability payments related to capital expenditures.

In a separate action<sup>2</sup> being considered by the Committee on Grounds and Buildings and the Committee on Finance at this meeting, the Regents are being asked to approve the budget, scope, commercial terms of the Project Agreement, and release of the final Request for Proposals for the 2020 Project.

### **RECOMMENDATION**

The President of the University recommends that the Committees on Grounds and Buildings and Finance recommend to the Regents that the *2016-17 Budget for State Capital Improvements*, as shown in Attachment 1, be approved.

### **BACKGROUND**

In 2013, the Education Code was amended to allow the University of California to use its State General Fund allocation, with certain conditions, to finance the design, construction, and equipping 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. These provisions authorize the University to use its State General Fund support appropriation to make debt service payments on its General Revenue Bonds (GRB) issued for projects that have been approved by the State.

In 2015, the State passed Senate Bill No. 81 (SB 81), which amended the Education Code to allow the University to use a portion of its State General Fund appropriation to make availability payments, lease payments, installment payments, and other similar or related payments for the financing of capital expenditures. This amendment provides the University with greater flexibility to use its support appropriation for alternative financing options. SB 81 also placed a condition on the *Merced 2020 Project* that requires “all work traditionally performed by persons with University of California Service Unit (SX) job classifications is performed only by employees of the University of California.”

The Education Code also provides that the University shall manage its General Revenue Bond program and certain other payments in a manner such that not more than 15 percent of its General Fund support appropriation, less the amount of that appropriation that is required to fund general obligation bond payments and State Public Works Board rental payments, is used for the total of all of the following: (a) payments for capital expenditures pursuant to Section 92493 of the Education Code, (b) pay-as-you-go capital outlay projects pursuant to Section 92494 of the Education Code, and (c) State Public Works Board rental payments.

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<sup>2</sup> The item being presented to the Committees on Grounds and Buildings and Finance is entitled, “Approval of Budget and Commercial Terms of the 2020 Project Agreement, and Related Actions, Merced Campus”

**2016-2017 BUDGET FOR STATE CAPITAL IMPROVEMENTS**

Within the provisions set forth in the Education Code, the University submitted the *Merced State 2020 Project* to the Department of Finance (DOF) and Joint Legislative Budget Committee (JLBC) in August 2015 to request funding for the 2016-17 fiscal year. As stated, the request totals \$527.3 million, to be funded by a combination of University external financing (\$400 million) and Developer funding (\$127.3 million). Approval of State funding would allow the campus to repay GRBs (\$400 million) and make availability payments to repay the Developer (\$127.3 million).<sup>3</sup>

The \$400 million in GRBs would be used to fund a portion of the milestone payments. The milestone payments are predetermined payments made by the University when the Developer meets certain conditions or delivery targets during design and construction. Availability payments, on the other hand, are performance-based payments made over the lifecycle of the facilities. Following the delivery of the facilities and over the term of a long-term contract (equivalent in length to a bond financing), the University will make availability payments, subject to the availability and performance of the facilities as specified in the Project Agreement. The availability payments within the Design-Build-Finance-Operate-Maintain approach are designed to pay for the capital components (amortization of the private financing, and design and construction costs), and operations and maintenance components (including capital renewal) of the project. With respect to the portion of the *Merced State 2020 Project* associated with the \$127.3 million in Developer funding, State approval is being requested to utilize State General Funds to support the capital component of the availability payment made to the Developer.

From fiscal years 2013-14 to 2015-16, the University has received approval from DOF and JLBC for 26 projects, totaling \$706,686,000, under the provisions of the Education Code. The Regents have approved the budget and financing, under separate actions, associated with these approvals for each fiscal year.

**State Capital Improvements under Section 92493, et seq. of the Education Code**

<b>Fiscal Year</b>	<b>Budget</b>	<b>Regents Approval of Budget</b>	<b>Regents Approval of Financing</b>
2013-14	\$132,309,000	November 2013	March 2014
2014-15	\$277,812,000	November 2013	March 2014
2015-16	\$296,565,000	September 2014	May 2015
<b>Total</b>	<b>\$706,686,000</b>	-	-

<sup>3</sup> Although the August 2015 Project Planning Guide submitted to the State clearly delineated the State project total to be \$527.3 million, the technical request is being revised from \$400 million to \$527.3 million to include the Developer-funded portion of the project that will be supported by State General Funds used to make the availability payments.

### MERCED 2020 PROJECT

As displayed in Attachment 1, the larger 2020 Project would deliver approximately 918,900 assignable square feet (asf) (1,366,600 gross square feet [gsf]), of new academic, research, residential, support, and infrastructure facilities in an adaptable, multi-building, joint-use physical environment that can accommodate programs emanating from the campus' *Academic Plan*. The project would enable the campus to accommodate 10,000 students, improve and expand all academic units, and enhance student life. The total budget for the capital improvements associated with the *2020 Project* is estimated to be approximately \$1.143 billion.

As noted previously, the State-funded *Merced State 2020 Project* is only a portion of the total project and consists of the following:

- All State-supportable space (i.e., research, academic, academic support space) associated with the 2020 Project, of approximately 415,800 asf, 667,700 gsf.
- Infrastructure costs, which have been prorated based on the portion of the State-supportable space (which accounts for approximately 49 percent of the 2020 Project's total gross square feet).
- **Cost** - \$527.3 million to be funded with University external financing (\$400 million) and Developer funding (\$127.3 million).

The remainder of the project, or non-State supportable portion, consists of the following:

- Approximately 503,100 asf (698,900 gsf), for student housing, student athletic facilities, parking, owner costs (such as tenant improvements and the campus's project oversight costs associated with the non-State-supportable project elements), infrastructure proportionate to the non-State supportable portion, and owner contingency.
- **Cost** - \$615.55 million to be funded from University external financing (\$200 million), Developer funding (\$258.46 million), and campus equity (\$157.09 million). State funds will not be used to repay the financing and Developer funding for this portion of the project.

As noted, this is one of two action items being presented to the November 2015 Regents that is associated with the Merced 2020 Project. The following table is a breakdown of the recommended actions for the Regents to approve in each item:

<b>This Action:</b> <i>Approval of University of California 2016-17 Budget for State Capital Improvements</i>	<b>Separate Action:</b> <i>Approval of Budget and Commercial Terms of the 2020 Project Agreement and Related Actions</i>
<ul style="list-style-type: none"> <li>• State Budget of <b>\$527.3 million</b> associated with the <i>Merced State 2020 Project</i></li> </ul>	<ul style="list-style-type: none"> <li>• Total Project Budget of <b>\$1,142.85 million</b> associated with the <i>Merced 2020 Project</i></li> <li>• Project Scope of approximately <b>918,900 asf</b></li> <li>• Commercial Terms of the 2020 Project Agreement</li> <li>• Authorization to the President to approve and execute the Project Agreement and related documents</li> <li>• Determination that the proposed procurement is in the best interests of the University</li> <li>• Authorization to release the Request for Proposals</li> </ul>

**KEY TO ACRONYMS**

ASF	Assignable Square Feet
DOF	Department of Finance
GRBs	General Revenue Bonds
GSF	Gross Square Feet
JLBC	Joint Legislative Budget Committee
SB 81	California Senate Bill 81
SX	University of California Service Unit

**ATTACHMENT**

[Attachment 1: 2016-17 Budget for State Capital Improvements](#)