

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM - CONSENT

For Meeting of September 18, 2024

**FALLING LEAVES FOUNDATION MEDICAL INNOVATION BUILDING, IRVINE
CAMPUS: BUDGET AMENDMENT AND INTERIM FINANCING**

EXECUTIVE SUMMARY

The Irvine campus seeks an increase of \$12.6 million to the approved budget for the Falling Leaves Foundation Medical Innovation Building project. This project constructs an approximately 200,000-gross-square-foot building with research laboratories, academic offices, and administrative space to house research in medicine and other health sciences disciplines. With the proposed increase, the cumulative budget augmentations since Regents approval of the original budget in March 2022 total \$32,599,000 (an increase of 14.2 percent) for a revised project total of \$262,599,000. Because the total augmentation now exceeds \$20 million, Regents' authority is required to approve this augmentation.

The Regents approved the project in March 2022 for budget and design with a budget of \$230 million, funded from gift funds, external financing, and campus funds. During the design-build competition, none of the bidding teams were able to deliver the project within the approved budget. In September 2022, the University of California Executive Vice President – Chief Financial Officer approved a budget augmentation of \$19,999,000, for a revised budget of \$249,999,000¹.

The building construction is now midway through completion. The campus is proposing to build out about 2,600 assignable square feet of shell space as a research center for the School of Pharmacy and Pharmaceutical Sciences and provide equipment for the animal research facility.

The Regents are being asked to: (1) approve a \$12.6 million augmentation to the approved budget to be funded with gifts, for a total budget of \$262,599,000; and (2) approve interim financing totaling \$24,584,000.

¹ It is within the Executive Vice President – Chief Financial Officer's authority to approve the budget augmentation. Under Presidential Delegation of Authority (DA) 2629, the Executive Vice President – Chief Financial Officer has the authority to approve augmentations that are 15 percent or less of the original budget and do not exceed \$20 million.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that:

- A. The 2024-25 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Irvine: Falling Leaves Foundation Medical Innovation Building – design, construction, and equipment – \$249,999,000 to be funded from gifts (\$50 million), external financing (\$139,999,000 million), and campus funds (\$60 million).

To: Irvine: Falling Leaves Foundation Medical Innovation Building – design, construction, and equipment – \$262,599,000 million to be funded from gifts (\$62.6 million), external financing (\$139,999,000 million), and campus funds (\$60 million).

- B. The President be authorized to obtain additional interim financing of \$5,284,000 for a total amount not to exceed \$24,584,000 plus additional related financing costs to finance the Falling Leaves Foundation Medical Innovation Building and declare that external financing may be used to reimburse prior expenditures. The Irvine campus shall satisfy the following requirements:
- (1) Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - (2) To the extent additional gifts and other funds are received as cash, the amount of interim financing will be reduced. To the extent additional gifts are received as documented pledges, the interim financing will be converted to standby financing.
 - (3) If gifts or pledges or both are not received within five years from the initial financing draw in the full amount of the outstanding interim financing, the amount of outstanding interim financing in excess of the amount of gifts and pledges received will be converted to long-term external financing or the Irvine campus will pay down, within a reasonable time, the amount of outstanding interim financing in excess of the amount of gifts and pledges received.
 - (4) As long as the debt is outstanding, the general revenues of the Irvine campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - (5) The general credit of the Regents shall not be pledged.

- (6) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

BACKGROUND

The Falling Leaves Foundation Medical Innovation Building (FLFMIB) project will provide approximately 200,000 gross square feet (GSF) of research laboratory and support space, academic offices, and administrative space to house collaborative, cross-disciplinary, and innovative research in medicine and other health sciences disciplines, providing the facilities necessary to maintain and advance UCI's position as a leader in research areas including cancer, neuroscience, infectious disease, precision health, and drug discovery.

The project addresses the current lack of research space to support faculty recruitment in the College of Health Sciences (COHS), including the School of Medicine, the School of Pharmacy and Pharmaceutical Sciences, and the Joe C. Wen School of Population and Public Health. The laboratories will also serve as a training ground for COHS students, notably those in the School of Medicine's programs designed to increase the quality of health care for underserved communities, thus contributing to the diverse healthcare workforce of the future.

Past Approvals

- **March 2022:** Budget, Scope, External Financing, Standby and Interim Financing, and Design Following Action Pursuant To The California Environmental Quality Act (Regents)
 - At the March 2022 meeting, the Regents approved the project budget of \$230 million funded from gifts (\$50 million), external financing (\$120 million), and campus funds (\$60 million); the project scope; external financing; standby and interim financing; and design following action pursuant to the California Environmental Quality Act (CEQA).²
 - In recognition of the volatility of the construction market, the scope approval included a provision that the campus may deliver a portion of the program (animal research facility and/or research laboratory floor) as shell space to be built out later with additional funds.
- **September 2022:** Budget and Scope Amendment (Executive Vice President – Chief Financial Officer)
 - During the design-build competition, all bidders communicated that even with taking the option of shell space in lieu of building out program space, the project could not be delivered within the approved budget. To address the budget shortfall and allow the project to continue with shell space, in September 2022, the University of California Executive Vice President – Chief Financial Officer approved a budget augmentation of \$19,999,000, for a revised budget of \$249,999,000.

² Action Item: <https://regents.universityofcalifornia.edu/regmeet/mar22/f1a.pdf>

- The augmentation enabled the continuation of the bid process, allowing the campus to determine whether the full project could be delivered within the approved budget, or, if not, to identify the additional costs for building out the shell space. Below is a summary of the bid outcome.

NEED FOR AMENDMENT

To ensure that the campus would be able to award the construction contract within the approved budget, the base bid for this project incorporated shell space totaling approximately 38,000 assignable square feet (ASF) across the animal research facility and two laboratory floors. Additive bid alternates were available to build out the shell space. The selected design-build team was able to incorporate the buildout of shell space on one laboratory floor as well as complete most of the animal facility within the approved budget. The campus is now proposing to build out approximately 2,600 ASF of remaining shell space and complete the animal facility with additional funds. The last increment of shell space (approximately 2,700 ASF) will be built out later to meet the specialized needs of future research initiatives.

The requested amendment would support additional project costs totaling \$12.6 million:

Buildout of wet laboratory shell space (approximately \$8.6 million):

Approximately 2,600 ASF will be built out to provide specialty laboratory space to support the Molecule Innovation Center. This equipment-intensive laboratory, with 21 fume hoods, will provide wet laboratory space for senior-level researchers in the School of Pharmacy and Pharmaceutical Sciences. Costs include the expansion of fire-rated shafts to the roof to accommodate ductwork to support additional fume hoods.

Animal facility equipment (approximately \$4 million):

Although the design-build team was able to incorporate construction of the animal facility in the approved budget, they were not able to include fixed equipment. This augmentation will provide funding for the purchase and installation of fixed equipment including a cagewasher, tunnel washer, bedding dispensing and disposal systems, and other support equipment to complete the facility and make it fully functional.

Attachment 1 (Project Sources and Uses) includes additional information regarding the project budget.

Project Schedule and Delivery Method

The project uses a design-build delivery method. The project began construction in December 2022 and is scheduled to be completed in April 2025. The proposed additional work will not change the project schedule.

Environmental Considerations

The buildout of the shell space included in this proposed budget increase was previously analyzed in the Falling Leaves Foundation Medical Innovation Building Initial Study / Mitigated Negative Declaration adopted in March 2022. None of the circumstances that would trigger subsequent or supplemental environmental review under Public Resources Code Section 21166 and CEQA Guidelines Sections 15162 or 15163 have occurred or are present. No additional analysis pursuant to CEQA is required.

Statement of Consistency with Select UC Policies and Practice

See Attachment 3.

Funding Plan and Financial Feasibility

The proposed augmentation for the FLMIB is \$12.6 million, for a revised total budget of \$262,599,000 funded from gift funds (\$62.6 million), external financing (\$139,999,000), and campus funds (\$60 million). With this augmentation, the cumulative increase over the originally approved budget of \$230 million is 14.2 percent.

The funding plan includes a community-based capital gift campaign of \$62.6 million. As of July 2024, the gift campaign status is as follows:

Table 1: Gift Campaign Status

Status	Amount
Cash in hand:	\$31,816,000
Pledges received:	\$6,200,000
Gifts to be raised:	\$24,584,000
Total	\$62,600,000

Approval of additional interim financing of \$5,284,000 for a total of \$24,584,000 is requested to bridge the timing of when the gifts are received. Interim financing in an amount of \$19.3 million was previously approved.

Over a ten-year period, the campus is projected to have a minimum modified cash flow margin of 3.9 percent and debt service coverage of 1.1 times, as required by the University's Debt Policy. Days' cash on hand in the Short Term Investment Pool (STIP)/Total Return Investment Pool (TRIP) is 91 days as of June 30, 2024, which also meets the requirements of the University's Debt Policy.

Attachment 2 provides a Summary of Financial Feasibility.

Key to Acronyms

ASF	Assignable Square Feet
CEQA	California Environmental Quality Act
DVBE	Disabled Veteran Business Enterprises
COHS	College of Health Sciences
EVP-CFO	Executive Vice President – Chief Financial Officer
FLFMIB	Falling Leaves Foundation Medical Innovation Building
GSF	Gross Square Feet
SBE	Small Business Enterprises

ATTACHMENTS

Attachment 1:	Project Sources and Uses
Attachment 2:	Summary of Financial Feasibility
Attachment 3:	Statement of Consistency with Select UC Policies and Practice

ATTACHMENT 1

PROJECT SOURCES AND USES FALLING LEAVES FOUNDATION MEDICAL INNOVATION BUILDING

PROJECT SOURCES

Sources	Approved September 2022	Augmentation Request	Proposed Budget September 2024	
Gift Funds	\$50,000,000	\$12,600,000	\$62,600,000	24%
External Financing	\$139,999,000		\$139,999,000	53%
Campus Funds	\$60,000,000		\$60,000,000	23%
Total Sources	\$249,999,000	\$12,600,000	\$262,599,000	100%

PROJECT USES

Category	Approved Budget September 2022	Augmentation Request	Proposed Budget September 2024	% of Total
Site Clearance	\$3,140,000		\$3,140,000	1.3%
Building	\$181,111,000	\$12,600,000	\$193,711,000	77.3%
Exterior Utilities	\$9,982,000		\$9,982,000	4.0%
Site Development	\$5,505,000		\$5,505,000	2.2%
A/E Fees ¹	\$13,910,000		\$13,910,000	5.6%
Campus Administration ²	\$8,942,000		\$8,942,000	3.6%
Surveys, Tests, Plans	\$2,981,000		\$2,981,000	1.2%
Special Items (excluding financing costs) ³	\$2,393,000		\$2,393,000	1.0%
Contingency	\$9,935,000		\$9,935,000	4.0%
Total	\$237,899,000	\$12,600,000	\$250,499,000	100%
Group 2 & 3 Equipment	6,100,000		6,100,000	
Project Total	\$243,999,000	\$12,600,000	\$256,599,000	
Interest During Construction	\$6,000,000		\$6,000,000	
Grand Total	\$249,999,000	\$12,600,000	\$262,599,000	

Project Statistics:	Approved Budget September 2022	Augmentation Request	Proposed Budget September 2024
Gross Square Feet (GSF) ⁵	200,000	N/A	200,000
Assignable Square Feet (ASF) ⁵	120,000	N/A	120,000
Efficiency Ratio: ASF/GSF (%)	60%		60%
Building Cost/GSF ⁵	\$906		\$969
Building Cost/ASF ⁵	\$1,509		\$1,614
Project Cost/GSF ⁵	\$1,189		\$1,252
Project Cost/ASF ⁵	\$1,982		\$2,087

¹ Fees include executive architect basic services.

² Campus Administration includes quality assurance, project management, and inspection.

³ Special Items include acoustician; agency review; commission building systems; environmental: IS/MND and EP&S; environmental monitoring during construction; Facilities Management utility coordination/shutdowns; geotechnical report; independent seismic review; interior designer; paleontologist/ tribal monitor; parking; peer review for civil, architectural, and waterproofing; programming/project DPP (includes animal facility study); sampling (HAZMAT); security consultant; special inspections for architectural, civil, waterproofing; topographic/as-built survey/CAD base sheets; value engineering/ constructability review; wind study (programming phase); and master planning/lab planning (Cumming/RFD/LPA).

⁴ The equipment budget is sufficient to operate the building at completion, and includes furnishings, and equipment for shared research support and scholarly activity spaces. Research equipment may be funded separately from contract and grant funds and faculty start-up packages.

⁵ 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. Building Cost refers to Project Uses Cost Category: Building. Project Cost excludes Equipment and Interest During Construction.

Funding Schedule

Design	\$2,600,000
Construction	\$253,899,000
Equipment	\$6,100,000
Total	\$262,599,000

SUMMARY OF FINANCIAL FEASIBILITY

Irvine Campus	
Project Name	Falling Leaves Foundation Medical Innovation Building
Project ID	990120
Total Estimated Project Cost	\$262,599,000
Anticipated Interest During Construction (included in total estimated project cost)	\$6,000,000

Proposed Sources of Funding	
External Financing ¹	\$139,999,000
Campus Funds	60,000,000
Gifts (\$62,600,000 total):	
In hand	31,816,000
Pledges (standby financing) ¹	6,200,000
To be raised (interim financing) ¹	24,584,000
Total	\$262,599,000

Interim Financing

Financing Assumptions for Conversion of Interim Financing to Long-Term External Financing	
Interim Financing Amount	\$24,584,000
Anticipated Repayment Source	General Revenues of the Irvine campus
Anticipated Fund Source	Unrestricted Revenues
Financial Feasibility Rate	4.25%
First Year of Repayment (e.g. FY 20XX)	2026
Term (e.g. 30 years; indicate if any years interest only)	30
Final Maturity (e.g. FY 20XX)	2055
Estimated Average Annual Debt Service	\$1,465,000

¹ External financing and standby financing for this project were previously approved. The proposed augmentation in this request includes an increase in interim financing.

CAMPUS FINANCING BENCHMARKS			
Measure	Campus Metric	Approval Threshold	Requirement
Modified Cash Flow Margin	3.9% (minimum), 2033 (yr)	$\geq 0.0\%$	Must Meet
Debt Service Coverage	1.1x (minimum), 2030 (yr)	$\geq 1.1x$	
STIP/TRIP Days' Cash on Hand	91 days, 06/30/2024	≥ 90 days	

ATTACHMENT 3

STATEMENT OF CONSISTENCY WITH SELECT UC POLICIES AND PRACTICE

The project is consistent with selected UC Policies and Practice:

Sustainable Practices Policy

This project will comply with the University of California Sustainable Practices Policy. The Sustainable Practices Policy establishes goals for green building, clean energy, transportation, climate protection, facilities operations, zero waste, procurement, food service, and water systems. A full range of sustainability practices for design and operations is included in the budgeting, programming, and design effort for the project.

Small Business Enterprises (SBEs) and Disabled Veteran Business Enterprises (DVBES)

The campus is committed to promoting and increasing participation of Small Business Enterprises (SBEs) and Disabled Veteran Business Enterprises (DVBES) in all purchasing and contract business, subject to any applicable obligations under State and federal law, collective bargaining agreements, and University policies. The campus regularly communicates with interested contractors and consultants to provide information about how to find opportunities to work at the campus and to encourage them to respond to the annual announcement soliciting interest in performing services. Providing qualified SBEs with the maximum opportunity to participate will be encouraged with the selected design professionals and contractors with the goal of meeting 25 percent participation.

Seismic Safety

This project will comply with the University of California Seismic Safety Policy including independent seismic peer review.