

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

*For Meeting of September 18, 2007*

**AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL FINANCING, STUDENT ATHLETE HIGH PERFORMANCE CENTER, BERKELEY CAMPUS**

**EXECUTIVE SUMMARY**

Campus: Berkeley

Project: Student Athlete High Performance Center (SAHPC)

Proposed Action: Approval of budget and external financing

Total Cost: \$117,448,000, to be funded from gifts (\$17,448,000) and external financing (\$100,000,000).

Previous Action: **January 2006:** Preliminary Review of Southeast Campus Integrated Projects – Discussion item;  
**March 2006:** Approval to prepare SAHPC preliminary plans.  
**November 2006:** Budget approval and standby financing  
**December 2006:** Design approval

Project Summary: The Berkeley campus requests approval to amend the budget for the SAHPC project, to be funded from gifts and long-term debt.

The SAHPC is the first part of an overall plan to seismically upgrade and improve the California Memorial Stadium (the Stadium). The proposed project would construct a new multi-level, 108,950 asf (142,000 gsf), facility to provide expanded and improved facilities for student athlete training and development. The new facility, immediately west of the Stadium, would allow those programs to vacate their existing space in the seismically “Poor” Stadium structure.

Issues:

- The total project for SAHPC is estimated to be \$117,448,000 and be funded from gifts and long-term debt.
- Planned total project cost per/gsf \$827.
- Creation and use of funds functioning as an endowment (FFE) in lieu of using gifts for construction costs.
- Pending litigation court hearing set for September 19, 2007.

### RECOMMENDATION

The President recommends that the Committee on Grounds and Buildings recommend to The Regents that, subject to a decision by the court in favor of the University in the matter of pending litigation concerning this project, and with concurrence of the Chairs of the Board of Regents, the Committee on Grounds and Buildings, and the Committee on Finance, the President be delegated the authority to:

1. Amend the 2007-08 Budget for Capital Improvements and the Capital Improvement Program as follows:
  - From: Berkeley: Student Athlete High Performance Center – preliminary plans, working drawings, construction, and equipment – \$111,948,000, to be funded from gift funds.
  - To: Berkeley: Student Athlete High Performance Center – preliminary plans, working drawings, construction, and equipment – \$117,448,000, to be funded from gift funds (\$17,448,000) and external financing (\$100,000,000).
2. The President be authorized to obtain external financing not to exceed \$100 million to finance the Student Athlete High Performance Center (SAHPC) project, subject to the following conditions:
  - A. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - B. Repayment of the debt shall be from the Berkeley campus football program gross revenues and the income earned on the SAHPC Initiative Fund, which shall be sufficient to meet operating expenses, pay debt service, and meet requirements related to the financing.
  - C. The general credit of The Regents shall not be pledged.
3. The President to be authorized to obtain standby financing not to exceed \$6,248,000, prior to awarding a construction contract for any gift funds not received by that time and subject to the following conditions:
  - A. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - B. Repayment of any financing shall be from gift funds and, in the event such gift funds are insufficient, from the Berkeley campus football program net revenue.
  - C. The general credit of The Regents shall not be pledged.

4. Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
5. Officers of The Regents be authorized to execute all documents necessary in connection with the above.

A Key to abbreviations and the project description are attached.

**KEY**  
**Capital Improvement Program Abbreviations**

<b>S</b>	Studies
<b>P</b>	Preliminary Plans
<b>W</b>	Working Drawings
<b>C</b>	Construction
<b>E</b>	Equipment
<b>-</b>	State Funds (no abbreviation)
<b>F</b>	Federal Funds
<b>G</b>	Gifts
<b>HR</b>	Hospital Reserve Funds
<b>I</b>	California Institutes for Science and Innovation
<b>LB</b>	Bank Loans or Bonds (External Financing includes Garamendi, Bonds, Standby, Interim and Bank Loans)
<b>LR</b>	Regents' Loans (Internal Loans)
<b>N</b>	Reserves other than University Registration Fee (Housing and Parking Reserves)
<b>R</b>	University Registration Fee Reserves
<b>U</b>	Regents' Appropriations (President's Funds, Educational Fund)
<b>X</b>	Campus Funds
<b>CCCI</b>	California Construction Cost Index
<b>EPI</b>	Equipment Price Index

2007-08 Budget for Capital Improvements  
 and Capital Improvement Program  
 Scheduled for  
 Regents' Allocations, Loans, Income Reserves,  
 University Registration Fee Reserves, Gift Funds,  
 and Miscellaneous Funds

Campus and Project Title (Total Cost)	<u>Approved</u>	<u>Proposed 2007-08</u>
<u>Berkeley</u>		
	P \$ 6,536,000 G	C (\$ 94,500,000 G)
Student Athlete High Performance	P \$ 3,743,000 G	C \$ 100,000,000 LB
Center	C \$ 100,669,000 G	
	E \$ 1,000,000 G	
(\$117,448,000)		

**BACKGROUND**

The Berkeley campus requests approval of the budget and financing for the Student Athlete High Performance Center (SAHPC) at a total project cost of \$117,448,000, at CCCI of 4948, to be funded from gifts and long term external financing.

At the November 2006 meeting, The Regents approved a \$111,948,000 amendment of the 2006-07 Budget for Capital Improvements and the Capital Improvement Program for this project, standby financing for up to \$12 million, the proposed design of the facility, and at a special meeting of the Committee on Grounds and Buildings (December 5, 2006) certified the environmental impact report for the Southeast Campus Integrated Projects. Subsequently, four lawsuits were filed against this project and an injunction was granted by the court blocking construction until the judge rules on the merits. A hearing is set for September 19, 2007 and a decision is expected within approximately two weeks of that date.

The campus is seeking approval of an amendment of the budget to include \$5.5 million in financing costs and approval to obtain external financing in the amount of \$100 million. In order to allow the project to proceed without further delay if the court rules in the University's favor, the campus seeks such approval contingent upon the additional concurrent of the Chair of the Board, the Chair of Grounds and Buildings, and the Chair of Finance. The timing of this action is urgent because the potential cost of waiting until after the court rules to seek Regents' approval would place an otherwise avoidable high financial burden on the project and jeopardize the estimated completion date scheduled to coincide with the start of the fall 2010 football season.

***Project Description***

The SAHPC project will create a new 108,950 asf (142,000 gsf) athletic facility for approximately 450 student athletes, in 13 sports programs, and integrate the site and landscape into the surrounding campus to improve connection and circulation. The building will consist of a two-level athlete training and development building located at the west side of the Stadium. The new structure will be constructed mostly below grade in the west sloping site, allowing almost full exposure of the Stadium's historic west wall to remain visible from the adjacent Piedmont Avenue. Stairs and ramps included in the proposed project would substantially improve access for all up to the Stadium from Piedmont and other parts of the main campus.

Construction of the SAHPC would be accomplished through two groups of bid packages. The first would include underpinning the existing west wall of the Stadium, excavation, shoring, and installation of steel sheet pilings to support the excavated area; this work is scheduled to begin in October 2007. The second package, scheduled to begin in February 2008, would construct the building core and shell, and provide initial tenant improvements. Specialized high performance training, medical, and other equipment would be installed separately as funds become available.

Completion of the SAHPC is scheduled in fall 2010.

***Green Building Policy and Clean Energy Standard***

The project will comply with the *University of California Policy on Sustainable Practices*. As required by this policy, the project will adopt the principals of energy efficiency and sustainability to the fullest extent possible, consistent with budgetary constraints and regulatory and programmatic requirements. Specific information regarding energy efficiency and sustainability was provided when The Regents approved the project design in December 2006.

***CEQA Compliance***

Environmental review of this project is part of the Southeast Campus Integrated Projects (SCIP), focused Environmental Impact Report, certified by The Regents in December 2006.

***Financial Feasibility***

***Gift Standby Financing:***

The total project cost of \$117,448,000 at CCCI 4948 would be funded from gifts (\$17,448,000) and long-term debt (\$100 million). The gift campaign for the project is under way, and as of June 30, 2007 the status is as follows:

Gifts In Hand	\$11,200,000
Gifts Pledged	\$ 6,248,000
Gifts to be Received	\$ 0
<b>TOTAL:</b>	<b>\$17,448,000</b>

Approval to reduce the current authorization for standby financing from \$12 million to \$6,248,000 is requested in order to reflect the current status of the gift campaign and to meet The Regents' funds-on-hand requirement. To the extent gifts are received prior to completion of the project, the amount of the standby financing will be reduced and outstanding balances will be repaid. The campus anticipates that it will be able to collect the pledges raised.

*Long Term External Financing:*

Long-term debt of \$100 million is also requested. Football program net revenues and the earnings on the SAHPC Initiative Fund will be pledged to pay the debt service on the bonds. Based on long-term debt of \$100 million at 5.75 percent interest for 30 years, the estimated average annual debt service is \$7,072,000.

In compliance with Regents' policy, all funds necessary to complete construction will be in hand prior to issuing the project for bid.

The campus intends to raise an additional \$100 million in gifts to the SAHPC Initiative Fund which would be invested in a fund functioning as an endowment (FFE) to be invested through the Office of the Chief Investment Officer in GEP or similar investments. The earnings on this FFE is expected to allow it to provide support for facility and operating needs of the SAHPC as well as to contribute to debt service. As of June 30, 2007 the status is as follows:

Gifts In Hand	\$ 1,300,000
Gifts Pledged	\$ 6,500,000
Gifts Pledges to be Confirmed	\$ 60,200,000
Gifts to be Raised	<u>\$ 32,000,000</u>
TOTAL:	\$100,000,000

Pledges to be confirmed include pledges to the Memorial Stadium campaign which are expected to be changed to the SAHPC Initiative Fund, verbal pledges and pledges with contingent language. Fundraising is actively continuing and the campus plans to raise the remaining gifts before it goes to bid.

The establishment of the SAHPC Initiative Fund and investment as FFE is a pilot program as an alternative to using such gifts as cash payments for construction. Historically all UC campuses have used gifts which are earmarked for facilities as cash to pay for construction costs. This avoids the use of debt but may not be the best long-term use of the gift. By investing the funds, the earnings can be used to support program and facility expenses as well as contribute to debt service, and when the debt is fully repaid, it is anticipated that the FFE will be available to provide subsequent earnings.



The risks involved in this alternative include the following:

- The fundraising campaign may be unsuccessful in converting current gifts earmarked for capital into the SAHPC Initiative, and the balance of the fundraising will be insufficient to complete the fundraising goal of \$100 million.
- Long term investment rates on GEP may decline and be insufficient to support the program, facility, and debt service. Football program gross revenues are the primary source of repayment pledged for debt service.
- Issuing debt instead of using gifts as cash to pay for construction adds liabilities to the balance sheet, whereas the debt capacity created by the FFE investment is expected to offset those liabilities by less than 100 percent at first (approximately 60-70 percent of debt capacity is generated for each dollar in the FFE). While the University does not have debt capacity constraints today, using a FFE as a capital mechanism for this project will use debt capacity until the value of the FFE has increased sufficiently and the long term debt balance has been reduced to be debt capacity neutral. Once the long term debt is repaid, the FFE will continue to generate debt capacity for the campus.

Should the fundraising fall short of the \$100 million target for the SAHPC Initiative, the campus will return to The Regents to pledge alternative fund sources in addition to the gross football revenues and the SAHPC then collected .

Additional financial feasibility information may be found in Attachment 2.

(Attachments)

**PROJECT STATISTICS**  
**STUDENT ATHLETE HIGH PERFORMANCE CENTER**  
**CAPITAL IMPROVEMENT BUDGET**  
**BERKELEY CAMPUS**  
**CCCI 4948**

<u>Cost Category</u>	<u>Total Amount</u>	<u>% of Total</u>
Site Clearance	\$ 443,000	0.4%
Building	84,758,000	72.8%
Exterior Utilities	1,894,000	1.6%
Site Development	4,087,000	3.5%
A/E Fees <sup>(a)</sup>	7,600,000	6.5%
Campus Administration	5,100,000	4.4%
Surveys, Tests	1,124,000	1.0%
Special Items <sup>(b)</sup>	7,161,000	6.1%
Contingency	4,281,000	3.7%
<b>Total</b>	<b>\$ 116,448,000</b>	<b>100%</b>
Groups 2 & 3 Equipment	1,000,000	
<b>Total Project</b>	<b>\$ 117,448,000</b>	

<u>Statistics</u>	<u>Total</u>
<u>Gross Square Feet (gsf)</u> <sup>(c)</sup>	142,000
<u>Assignable Square Feet (asf)</u> <sup>(c)</sup>	108,950
<u>Ratio asf/gsf (%)</u>	77%
<u>Building Cost/gsf</u> <sup>(c)</sup>	\$ 597

**Comparable University Projects at CCCI 4948**

Because of the project's unique constraints and challenges, and the special design and construction solution to meet them, the Student Athlete High Performance Center cannot be adequately compared to other projects of this type.

The special issues and solutions include the following:

- The structure is substantially underground in order to minimize its visual impact on the historic stadium.
- The design includes a plaza on the roof to address circulation and game-day program needs. This plaza/roof must be able to support fire trucks.
- Special underpinning of the stadium will be required during construction.
- The design of the project will have to include additional seismic work due to near fault conditions.

(a) Fees include executive architect and other professional design contract costs.

(b) Special items include advance planning expenses, special consultants, environmental reviews, project reviews, and off-site utilities, totaling \$1,161,000, and interest expense totaling \$5,500,000.

(c) 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.

**ATTACHMENT 2**

**SUMMARY OF FINANCIAL FEASIBILITY ANALYSIS**

Project Title: Student Athlete High Performance Center

Total Estimated Project Cost \$ 117,448,000

Proposed Sources of Funding

Gifts	\$ 17,448,000
External Financing	<u>100,000,000</u>
Total	\$ 117,448,000

Proposed Financing Terms

Interest Rate: 5.75%  
External Financing Duration: 30 years

Pledged Sources of Repayment (FY2011-12)<sup>1</sup>

Estimated Football gross revenue	\$ 14,250,000
Estimated SAHPC Initiative Fund earnings	<u>\$ 6,070,000</u>
Total revenue	\$ 20,320,000
Estimated Football Expenses	<u>\$ 8,520,000</u>
Net revenue	\$ 11,800,000

Estimated Annual Debt Service \$ 7,072,000

Debt Service Coverage 1.67x

---

<sup>1</sup> Represents second full year of operation and estimated first year of principal and interest payments.