

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of November 12, 2013

APPROVAL OF UNIVERSITY OF CALIFORNIA 2013-14 AND 2014-15 BUDGETS FOR STATE CAPITAL IMPROVEMENTS AND ACCEPTANCE OF THE 2013-23 CAPITAL FINANCIAL PLAN

EXECUTIVE SUMMARY

This item requests approval of the *2013-14 Budget for State Capital Improvements* as amended. The State adopted legislation in 2013-14, Assembly Bill 94 (Chapter 50, Stats. 2013), that modified the way in which debt service funding for the University's capital outlay is handled at the State level. AB 94 also allowed the University to submit additional 2013-14 capital projects by August 1, 2013 to the Joint Legislative Budget Committee and the Department of Finance. Consequently, this action requests approval of seven additional projects totaling \$87 million, bringing the total of the 2013-14 Budget for State Capital Improvements to \$141 million.

This item also requests approval of the *2014-15 Budget for State Capital Improvements*, that totals \$202.8 million in State capital outlay funds.

Finally, this item requests acceptance of the *2013-23 Capital Financial Plan*, which delineates the University's multi-year program of proposed capital construction and renovation. Submitted annually for acceptance by the Regents, the *2013-23 Capital Financial Plan* incorporates the following reports:

- The Annual Budget for State Capital Improvements;
- The University of California Five-Year Capital Outlay for State Funds; and
- The Annual Report on Campuses' Ten-Year Capital Financial Plans.

Following acceptance by the Regents, the *2013-23 Capital Financial Plan* will be submitted to the State to comply with the statutory requirement for providing the five-year capital outlay plan.

RECOMMENDATION

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

1. Subject to concurrence of the Committee on Finance, the amended 2013-14 Budget for State Capital Improvements as shown in Attachment 1 be approved.
2. Subject to concurrence of the Committee on Finance, the 2014-15 Budget for State Capital Improvements as shown in Attachment 2 be approved.
3. The *2013-23 Capital Financial Plan* be accepted.

BACKGROUND

State funding for capital improvement projects for the University has been reduced over the last five years as a result of the economic downturn and the State's goal to reduce overall bond debt. The last general obligation bond approved in the State of California for higher education was in 2006, which included an allocation of \$890 million for the University of California.

Subsequently, the University has been forced to rely on limited lease revenue bonds funding availability and the very small remaining balances of previous general obligation bonds. This limited funding amount has resulted in a large backlog of projects that still require funds to proceed.

With the successful passage of Proposition 30 in November 2012, the *2013-14 State Budget Act* includes a renewed commitment from the State to the University of California. The Governor recommended a multi-year funding plan that increases the University's base budget by five percent in the 2014-15 fiscal year, and by four percent in each of the two subsequent years.

The State adopted legislation in 2013-14, Assembly Bill No. 94, Chapter 50, Section 8 (AB 94), which adds, among other provisions, sections 92495 et seq. to the Education Code. AB 94 will provide unprecedented and exceptional flexibility to the University of California that no other State agency has been given. The University will benefit from this new change in the treatment of debt service funding for capital outlay at the State level. All State-funded debt service for capital outlay – both that related to general obligation bonds and to lease revenue bonds – is now contained in the University's base budget. This addition to the base budget will also be subject the aforementioned schedule of increases to the base budget and thus will result in a larger increase each year.

Also with this legislation, the University will be able to use a limited portion of its State general fund allocation to finance the design, construction, and equipping of academic facilities to address seismic and life safety needs, enrollment growth, or modernization of out-of-date facilities or infrastructure expansion to serve academic programs. The flexibility in the use of funds and the commitment to annual budget increases over four years combine to give the University a degree of stability and predictability that has been absent in recent years, and potentially allows the University to proceed with the planning needed to address high-priority capital improvement needs.

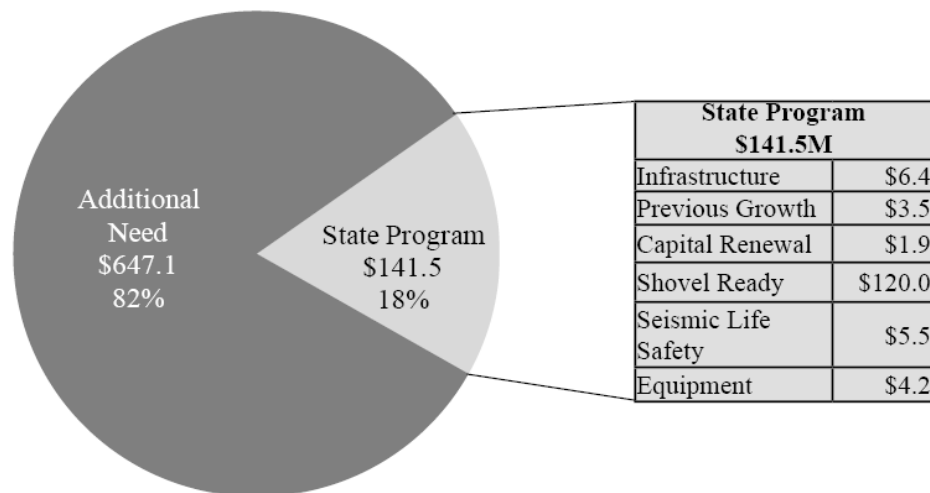
2013-14 Budget for State Capital Improvements

The *2013-14 Budget Act* appropriated: (i) the Merced Science and Engineering Building 2 equipment phase and the Scripps Institute of Oceanography Nimitz Marine Facility Berthing Wharf and Pier Replacement at UCSD, funded from general obligation bonds; and, (ii) the Classroom and Academic Office Building at Merced, to be financed under the provisions of AB94. The appropriated projects totaled \$54.4 million.

The provisions allowed the University to submit additional 2013-14 capital outlay projects by August 1, 2013 to the Joint Legislative Budget Committee and the Department of Finance. The University submitted seven additional projects totaling \$87 million; these seven projects plus the projects previously appropriated total \$141.5 million. A listing of the *2013-14 Budget for State Capital Improvements* may be found in Attachment 1.

As shown in Display 1 below, this proposal represents only 18 percent of the University's total funding need of \$788.6 million for State-eligible capital improvements projects.

Display 1: 2013-14 State Capital Outlay



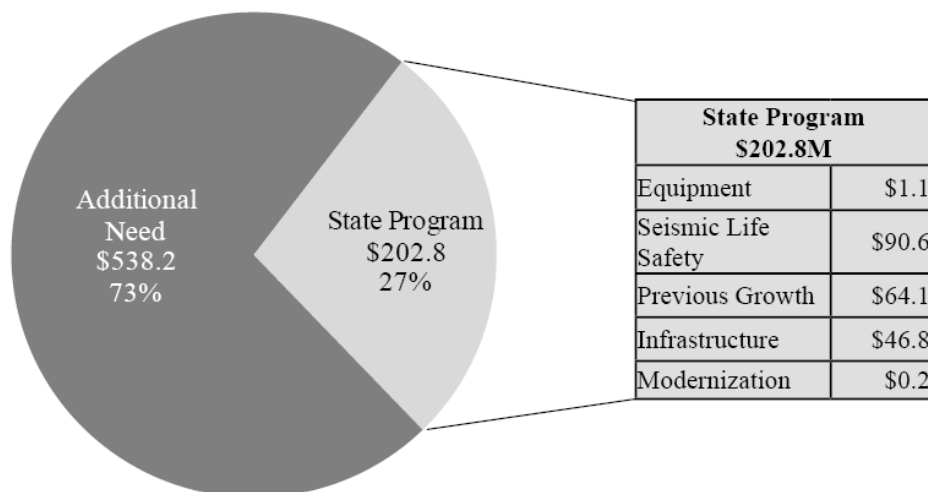
2014-15 Budget for State Capital Improvements

The *2014-15 Budget for State Capital Improvements*, shown in Attachment 2, proposes a total request of \$202.8 million in State capital outlay funds, to allow ten major capital projects to complete preliminary plans, working drawings, construction, and/or equipment. UC's proposal for 2014-15 focuses on critical infrastructure priorities, and seismic and life safety needs. Within the proposal, four projects would address seismic life safety needs (\$90.6 million), three projects would provide infrastructure improvements (\$46.8 million), one project would support modernization (\$0.2 million), and one project would accommodate previous growth (\$64.1 million). Additionally, \$1.1 million is requested to equip a building currently under

construction. This proposal has been submitted to the State of California in compliance with legislative reporting requirements.

As shown in Display 2 below, this proposal represents only 27 percent of the University's total funding need of \$741 million for State-eligible capital improvements projects.

Display 2: 2014-15 State Capital Outlay



Funding needs for State-eligible academic and support functions are estimated to be more than \$750 million per year over the next five years.

The University maintains a continuing commitment to pursue gifts and other potential sources to supplement State funding for construction. The University has capital needs for student-life and auxiliary programs that do not qualify as State-supportable and, therefore, must be addressed only with non-State resources. In this context, the University has intensified its efforts to make the most efficient use of existing facilities, to carefully define and analyze facility needs, to evaluate competing needs and set priorities that maximize the value of available funds, and to continually improve management of project design and construction.

2013-23 Capital Financial Plan

This *2013-23 Capital Financial Plan*, as shown in Attachment 3, represents the annual update of the campuses' ten-year plans, and presents information about the University's multi-year program of proposed capital construction and renovation. The *2013-23 Capital Financial Plan* includes a chapter for each campus that provides the following information:

- strategic goals
- capital program priorities
- challenges and constraints impacting the plan
- a summary table of State and non-State projects expected to be funded

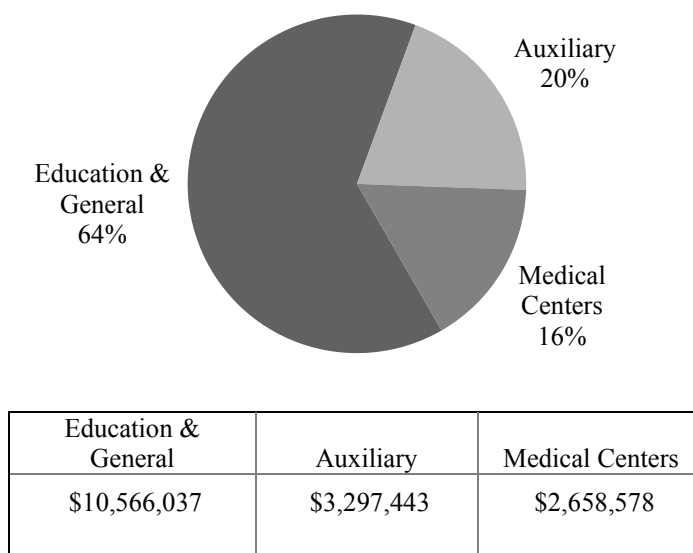
The *2013-23 Capital Financial Plan* provides the Regents with a comprehensive understanding of the financial strategies being implemented at each campus. In developing their current capital financial plans, campuses evaluated their financial opportunities and constraints and have included expectations for State capital funding. Each campus has also analyzed the affordability of debt-funded projects for their campus on a ten-year pro forma basis. At the time debt is actually approved, each campus is required to test the feasibility of their additional debt burden against metrics such as debt service to operations, debt service coverage, and expendable resources to debt.

The campuses' capital programs as proposed within the *2013-23 Capital Financial Plan* do not meet all identified capital needs. The campuses have included only those projects that they believe can be sufficiently defined in terms of scope and cost at this time, and for which a reasonable funding plan can be determined.

Within this planning framework, the *2013-23 Capital Financial Plan* proposes more than \$16.5 billion in funding for three categories of projects as shown in Display 3, below: Education and General (\$10.6 billion), Auxiliary (\$3.3 billion), and Medical Centers (\$2.6 billion). Education & General includes new construction and renovation of core instruction, research, general campus academic space, academic support space, student support space, institutional support space, infrastructure, and seismic/life safety.

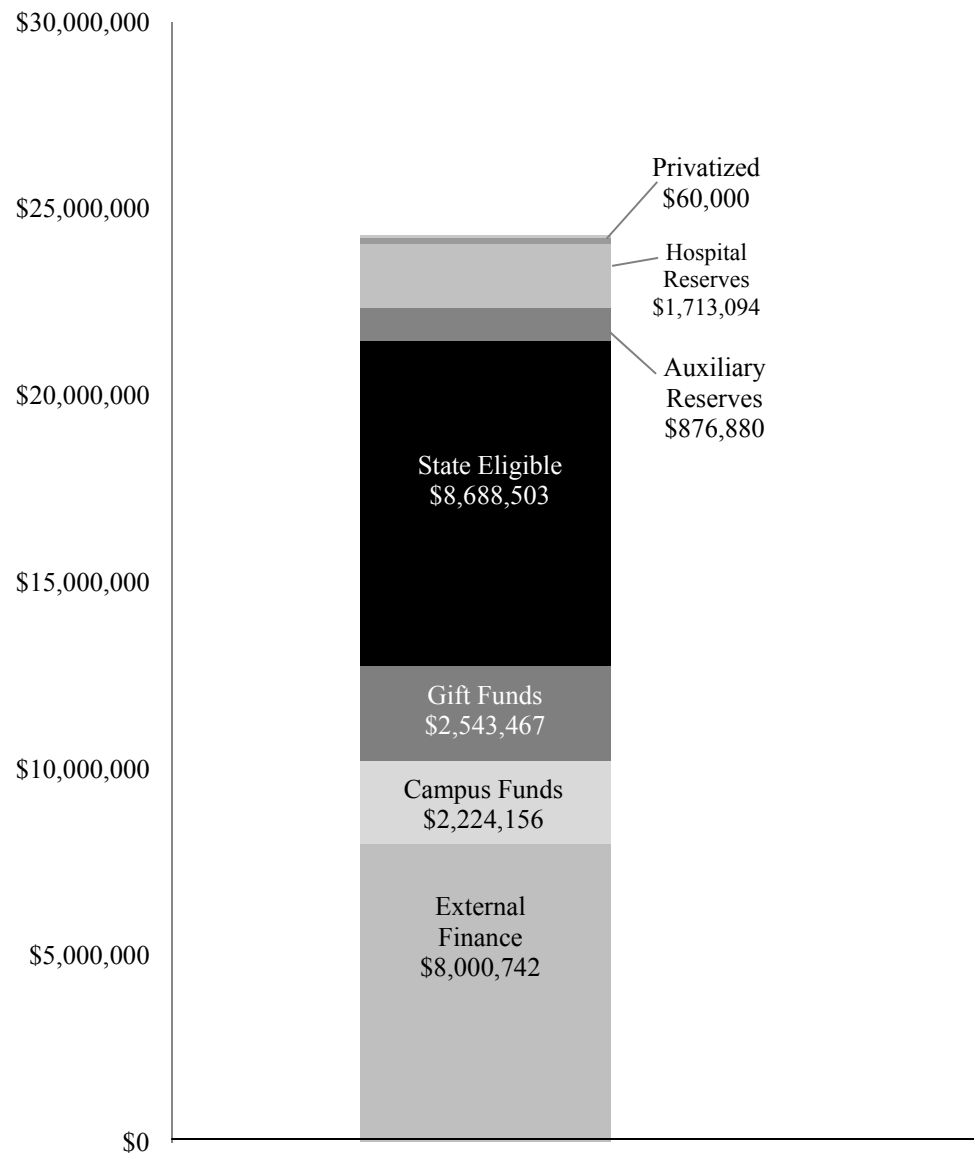
Approximately two-thirds of the ten-year program is allocated to Education and General projects, with the balance allotted to Auxiliary and Medical Center projects.

Display 3: 2013-23 Capital Project Program Categories



The projects proposed in the *2013-23 Capital Financial Plan* continue to rely on a diverse array of State and non-State fund sources. Display 4 below denotes that approximately 36 percent of the funding is composed of anticipated State funding. Nearly 33 percent of project funding is expected to come from external financing.

Display 4: 2013-23 Capital Project Fund Sources (\$000s)

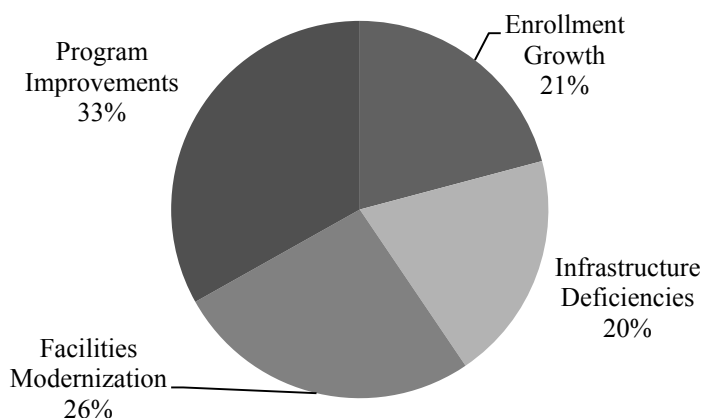


The projects proposed in the *2013-23 Capital Financial Plan* address four primary project objectives, as denoted in Display 5 below. All the projects within the *Infrastructure Deficiencies* category address seismic and other life-safety needs, and total approximately \$3.2 billion. Space to accommodate prior and potential *Enrollment Growth* at several campuses total approximately \$3.4 billion. Approximately \$5.5 billion would support *Program Improvements* including

projects to address program changes or to accommodate new programs. Projects that address technological obsolescence, systems improvements, and space functionality are included in the *Facilities Modernization* category and total approximately \$4.4 billion.

Display 5: 2013-23 Capital Project Primary Project Objectives

This *2013-23 Capital Financial Plan* incorporates the following reports: 1) the Annual Budget for State Capital Improvements; 2) the University of California Five-Year Capital Outlay Plan for State Funds; and the Annual Report on Campuses' Ten-Year Capital Financial Plans.



Enrollment Growth	Infrastructure Deficiencies	Facilities Modernization	Program Improvements
\$3,447,779	\$3,248,223	\$4,351,803	\$5,474,253

Following acceptance by the Regents, the *2013-23 Capital Financial Plan* will be submitted to the State of California in compliance with legislative reporting requirements.

(Attachments 1 and 2 below; [Capital Financial Plan](#))

ATTACHMENT 1

2013-14 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s) CCCI 6077

CRITERIA	CAMPUS	PROJECT	PHASE	2013-14 REQUEST	FUTURE STATE FUNDS	NON- STATE FUNDS
Shovel Ready	MC	Classroom & Academic Office Building	C	\$ 45,144	\$ 4,079	
Equipment	MC	Science & Engineering Building 2	E	4,220		
Infrastructure	SD	SIO Nimitz Marine Facility Berthing Wharf	C	5,000		\$ 20,053
TOTAL APPROPRIATED				\$ 54,364	\$ 4,079	\$ 20,053
Capital Renewal	ANR	Ext Centers Renewal & Improvements	PWC	1,850		200
Seismic/Life Safety	DV	Walker Hall Renewal & Seismic Corrections	PW	2,731	28,081	
Shovel Ready	LA	CHS Seismic Correction & Fire Life Safety	C	48,349		
Infrastructure	MC	Central Plant/Telecomm Reliability Upgrade	PW	1,400	15,000	
Seismic/Life Safety	SF	Clinical Sciences Building Seismic Retrofit	W	2,800	21,735	66,933
Shovel Ready	SF	Academic Support Facility	C	26,505		7,395
Previous Growth	SC	Coastal Biology Building	W	3,530	64,443	3,985
TOTAL PROPOSED				\$ 87,165	\$ 129,259	\$ 82,319
TOTAL STATE PROGRAM				\$ 141,529	\$133,338	\$102,372

Note: The State adopted legislation in 2013-14, Assembly Bill No. 94, Chapter 50, Section 8 (AB 94), which adds, among other provisions, sections 92495 et seq. to the Education Code. AB 94 required that the University submit its *2013-14 State Capital Outlay* request by August 1, 2013. The submittal of seven additional projects totaled \$87 million. This item requests approval of the seven projects plus the projects previously approved for a total \$141.5 million.

ATTACHMENT 2

2014-15 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s) CCCI 6151

CRITERIA	CAMPUS	PROJECT	PHASE	2014-15 REQUEST	FUTURE STATE FUNDS	NON- STATE FUNDS
Modernization	ANR	Intermountain Research Extension Center	PW	\$ 200	\$ 1,786	\$ 100
Seismic/Life Safety	DV	Walker Hall Renewal & Seismic Corrections	C	27,917	509	
Seismic/Life Safety	DV	Chemistry Seismic & Life Safety	PW	3,482	30,418	
Equipment	IR	Business Unit 2	E	1,094		3,281
Infrastructure	IR	Primary Electrical Improvements Step 4	DC	19,462		
Infrastructure	MC	Central Plant/Telecomm Reliability Upgrade	C	15,183		
Seismic/Life Safety	SD	Campus Life/Safety Improvements	WD	49,010		
Infrastructure	SB	Infrastructure Renewal Phase 1	C	12,136		
Previous Growth	SC	Coastal Biology Building	C	64,127	1,100	
Seismic/Life Safety	SC	Life Safety Upgrades	PWC	10,201		
TOTAL STATE PROGRAM				\$ 202,812	\$ 33,813	\$ 3,381