

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:¹

ACTION ITEM

For Meeting of November 18, 2014

ACCEPTANCE OF THE 2014-24 CAPITAL FINANCIAL PLAN

EXECUTIVE SUMMARY

This item is requesting acceptance of the University's *2014-24 Capital Financial Plan (CFP)*. The CFP delineates the University's multi-year program of proposed capital new construction, renovation, and other capital investment. Submitted annually for acceptance by the Regents, the CFP incorporates the following required reports:

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

Following acceptance by the Regents, the *2014-24 CFP* will be submitted to the State to comply with the statutory requirement for providing a five-year capital outlay plan.

RECOMMENDATION

The President of the University recommends that the Committee on Grounds and Buildings recommend to the Regents that the *University of California 2014-24 Capital Financial Plan* be accepted.

BACKGROUND

Historically, the request for approval of the *Budget for State Capital Improvements* is presented along with the *Capital Financial Plan (CFP)* at the November meeting of the Regents. The State now requires the submittal of capital projects to the Joint Legislative Budget Committee and the Department of Finance by September 1 in accordance with Sections 92493 through 92496 of the Education Code as added by Chapter 50 of the Statutes of 2013, Assembly Bill 94. Because of this earlier deadline established by the State, the Regents approved the *2015-16 Budget for State Capital Improvements* at their September meeting. However, it should be noted that the final budget plan for the use of State-appropriated funds in 2015-16 will not be taken to the Regents for approval until the November meeting. In addition, if there are insufficient funds available in

¹ Of interest to the Committee on Finance

2015-16 from a combination of State and University sources to adequately fund the basic operating budget, the State-funded capital outlay program for 2015-16 may be suspended or truncated and projects deferred to a later date.

The University's *2014-24 CFP* represents the annual update of the campuses' ten-year plans for capital improvements and presents information about the University's multi-year program of proposed capital new construction, renovation, and other capital investment. The *2014-24 CFP* includes a chapter for each campus that provides the following information:

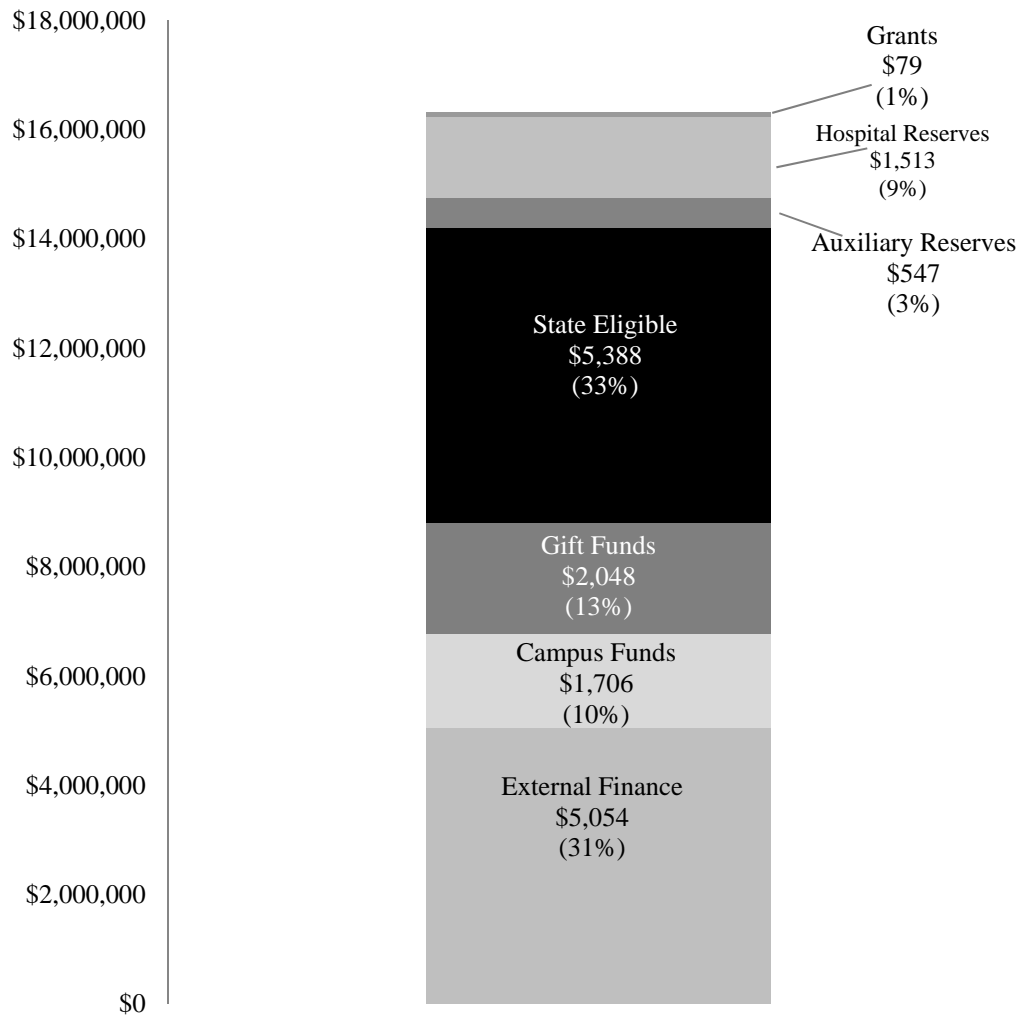
- strategic goals;
- capital program priorities;
- challenges and constraints impacting the plan; and
- a summary table of State-eligible and non-State funded projects that fit within funding parameters.

The *2014-24 CFP* provides the Regents with a comprehensive understanding of the financial strategies proposed for implementation at each campus. In developing their current capital financial plans, campuses evaluated their financial opportunities and constraints, and have included projects eligible for State capital funding. Campuses have also preliminary analyzed the affordability of debt-funded projects for their campus on a ten-year pro forma basis. At the time debt is requested for approval, all campuses are required to test the then-current feasibility of the additional debt burden against metrics such as debt service to operations, debt service coverage, and expendable resources to debt. Given debt capacity constraints, 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 the general revenue pledge changes.

The campuses capital programs, as proposed within the *2014-24 CFP*, 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.

The projects proposed in the *2014-24 CFP* continue to rely on a diverse array of State and non-State fund sources. Display 1 on the following page indicates that approximately 33 percent – the single largest source – of the funding consists of the request for State-eligible projects. Nearly 31 percent of project funding is projected to come from external financing.

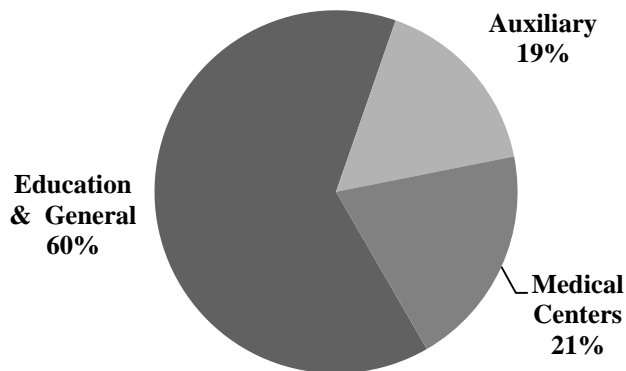
Display 1: 2014-24 Capital Project Fund Sources (\$000s)



Within this planning framework, the *2014-24 CFP* proposes more than \$16.3 billion in funding for three categories of projects, Education & General (\$10.4 billion), Auxiliary (\$2.7 billion), and Medical Centers (\$3.2 billion); the proportional share of these categories is illustrated in Display 2, below. 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 & General projects, with the balance allotted to Auxiliary and Medical Center projects.

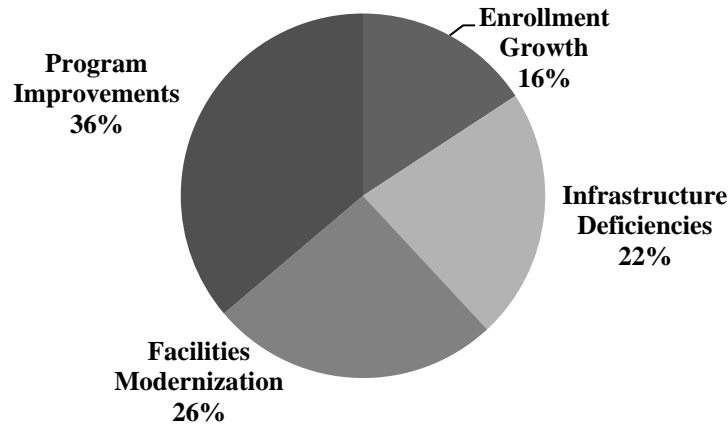
Display 2: 2014-24 Capital Project Primary Program Categories (\$M)



Education & General	Auxiliary	Medical Centers
\$10,391	\$2,702	\$3,242

The projects proposed in the *2014-24 CFP* address four primary objectives, as shown in Display 3 on the following page. All projects within the Infrastructure Deficiencies objective address seismic and other life-safety needs, and total approximately \$3.6 billion. A second objective, Enrollment Growth, includes projects to provide space to accommodate prior and potential enrollment growth and totals approximately \$2.5 billion. Approximately \$6 billion would support the objective of Program Improvements, which include 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 objective category and total approximately \$4.2 billion.

Display 3: 2014-24 Capital Project Primary Project Objectives (\$M)



Enrollment Growth	Infrastructure Deficiencies	Facilities Modernization	Program Improvements
\$2,575	\$3,648	\$4,209	\$5,903

This 2014-24 CFP satisfies the State requirement for the *University of California Five-Year Capital Outlay Plan for State Funds*. Following acceptance by the Regents, the 2014-24 CFP will be submitted to the State in compliance with legislative reporting requirements.

Key to Acronyms

CFP	Capital Financial Plan
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[Attachment: Capital Financial Plan](#)