

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

**ACTION ITEM**

*For Meeting of November 13, 2019*

**APPROVAL OF THE 2019-25 CAPITAL FINANCIAL PLAN**

**EXECUTIVE SUMMARY**

The Capital Financial Plan (CFP) delineates the University’s multi-year program of proposed new construction, renovation, and other capital investment. Commencing with this year’s plan, the CFP is being changed from a ten-year plan to a six-year plan. The 2019-25 CFP represents \$52 billion of capital need as articulated by the campuses and medical centers over this year and the next five fiscal years (through 2024-25). As summarized in the table below, the CFP includes campuses’ and medical centers’ full capital needs with projects divided into two groups: those with a funding plan and those with a funding plan not identified. UC pursues many funding sources including general funds, gifts, auxiliary enterprise revenues, and public-private partnership models to support its capital needs. However, UC has over \$24 billion in unfunded capital need, the majority of which (almost \$20 billion) supports State eligible education and general facilities.

<b>\$52,299M of Capital Need (2019-25)</b>			
	<b>Campus</b>	<b>Medical Center</b>	<b>Total*</b>
Capital Need with Funding	\$15,614	\$12,219	<b>\$27,833</b>
Capital Need with Funding Not Identified	23,007	1,459	<b>24,466</b>
<b>Total* (\$M)</b>	<b>\$38,621</b>	<b>\$13,678</b>	<b>\$52,299</b>

Furthermore, UC is currently undertaking two significant capital initiatives—comprehensively assessing seismic and deferred maintenance deficiencies. These have informed this year’s CFP and are key reasons the total capital need has increased significantly from last year’s CFP identified capital need of \$37 billion for the first six years (2018-19 to 2023-24).

In this action, the Regents are being asked to approve the 2019-25 Capital Financial Plan. Approval of the Capital Financial Plan does not constitute capital budget approval. The detailed scope, cost, and funding plan for each of the projects listed in the CFP may change as final budgets are approved.

## **RECOMMENDATION**

The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that the University of California 2019-25 Capital Financial Plan be approved.

## **BACKGROUND**

The University's capital program is driven by the campuses' and medical centers' academic and strategic plans. The Capital Financial Plan (CFP) is developed based on the needs at each location for buildings and other physical infrastructure to achieve these overarching plans.

- Strategic and Academic Plans define priority areas and goals and may include institutional aspirations.
- The Long Range Development Plan, as approved by the Regents, sets forth development principles for proposed future physical planning and development of a campus or medical center.
- The Physical Design Framework identifies planning principles and objectives for design of the physical environment.

The CFP presents proposed capital projects, public-private partnerships, and acquisition of real property that support these plans. The CFP is submitted annually for approval by the Regents and incorporates the following reports: Annual Report on Capital Financial Plans and University of California Five-Year Capital Outlay for State Funds.

In July 2019, the Regents approved an Amendment to the Schedule of Reports to the Regents<sup>1</sup> which, among other updates, changed the scope of the CFP from a ten-year plan (current year and next nine years) to a six-year plan (current year and next five years). This change was made because projects in the last four years were in an early formative stage. Accordingly, all analysis presented to Regents were based on the first six years of the plan. The change to a six-year plan is consistent with the analyses and the State's requirement to submit a five-year plan of proposed future State capital outlay.

## **PROGRAM ORGANIZATION**

Campuses' capital projects are divided into two program categories: Education and General (E&G) and Auxiliary Enterprises.

- E&G projects involve the construction and renovation of instruction, research, and student service space as well as administrative space and infrastructure that supports the academic program. This category also includes education related to the health sciences.

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<sup>1</sup> The report may be viewed at <https://regents.universityofcalifornia.edu/documents/pdf/schedule-of-reports.pdf>.

- Auxiliary enterprises support the campus academic mission by providing housing for students, faculty, and staff; parking; recreation; and other self-supporting enterprises that enhance and support the campus environment.

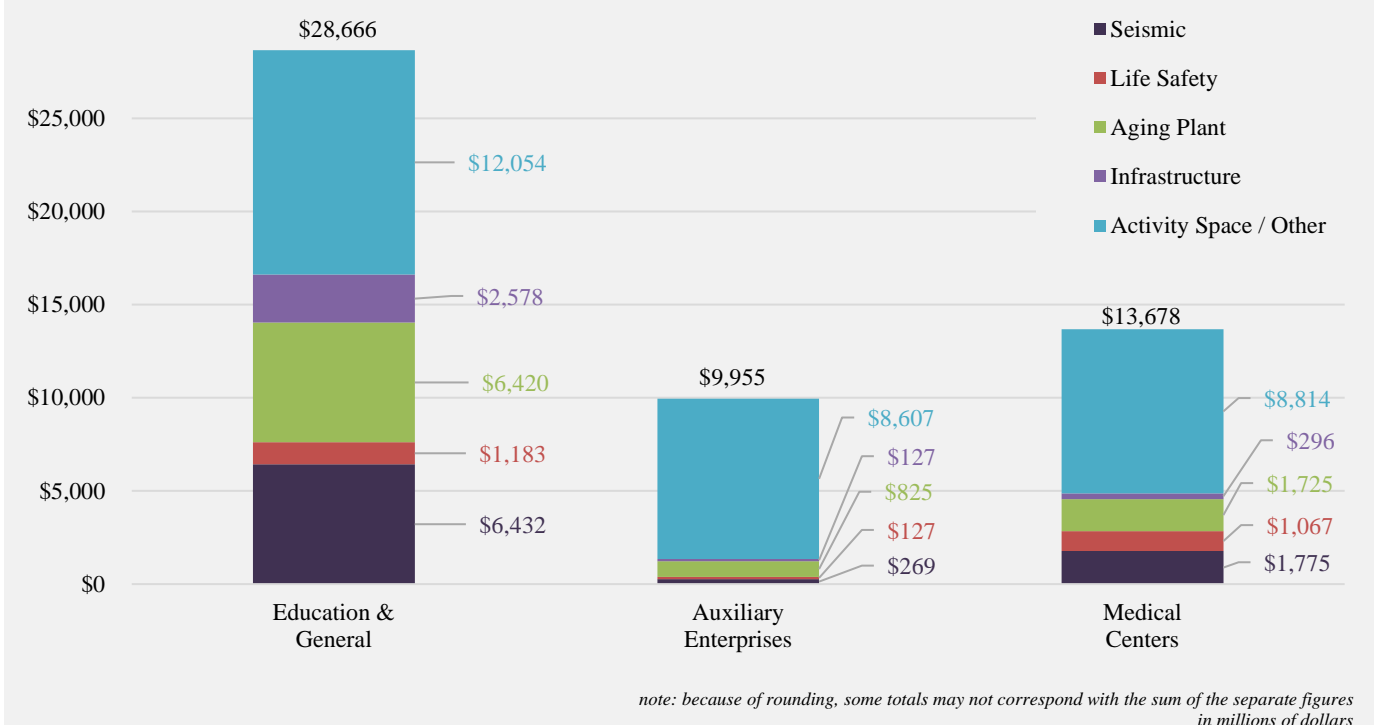
Medical Center projects involve hospitals, clinics, and other space supporting UC's five medical centers and their associated patient care networks.

### **CAPITAL NEED**

Capital projects in the campuses' and medical centers' capital program respond to one or more project objectives or broad category of need. Each capital project cost is divided among five project objectives as most capital projects have multiple objectives.

- **Seismic.** Seismic upgrades to existing facilities or projects replacing seismically deficient space.
- **Life Safety.** Upgrades to existing, or installation of new, fire and other life safety systems (non-seismic). Also includes building code compliance for accessibility or code issues.
- **Aging Plant.** Deferred maintenance, capital renewal, and capital improvement projects to address issues (non-seismic or life safety) in existing facilities.
- **Infrastructure.** Utilities, roads, bridges, and similar services between buildings. Includes central plant related projects.
- **Activity Space/Other.** Creation of new space or renovation of existing facilities to accommodate program improvements/growth.

Display 1. Project Objective by Program Category

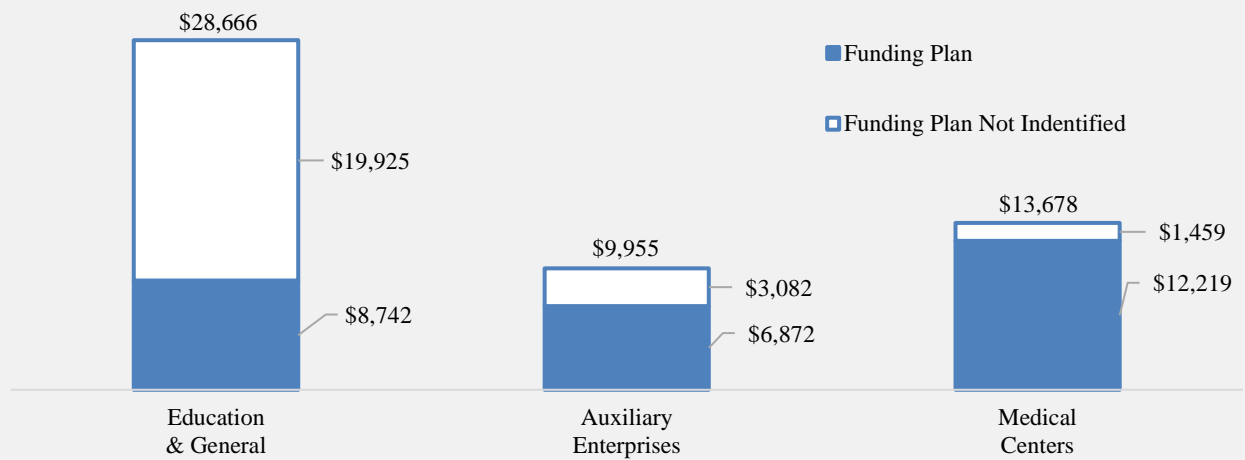


As shown in Display 1, campuses and medical centers need a significant capital investment for program improvements and growth. With the age of the University’s buildings (66 million gross square feet, representing 47 percent of UC’s buildings, are over 30 years old), both campuses and medical centers have identified a significant investment needed to address facilities modernization.

**FUNDING FOR CAPITAL NEED**

UC has identified over \$52 billion of capital need. Approximately one-half (48 percent) of the plan, or \$25 billion, does not have an identified funding plan. Display 2 identifies the stark differences in the availability of funding to support capital between the three program categories.

Display 2. Funding Status by Program Category



*note: because of rounding, some totals may not correspond with the sum of the separate figures in millions of dollars*

**Campus Education and General.** In general, E&G projects do not have a revenue stream and UC relies on State support to fund capital projects that address UC’s core instruction, research, and student support needs. Accordingly, less than a third (30 percent or \$9 billion) of this \$29 billion program has a funding plan.

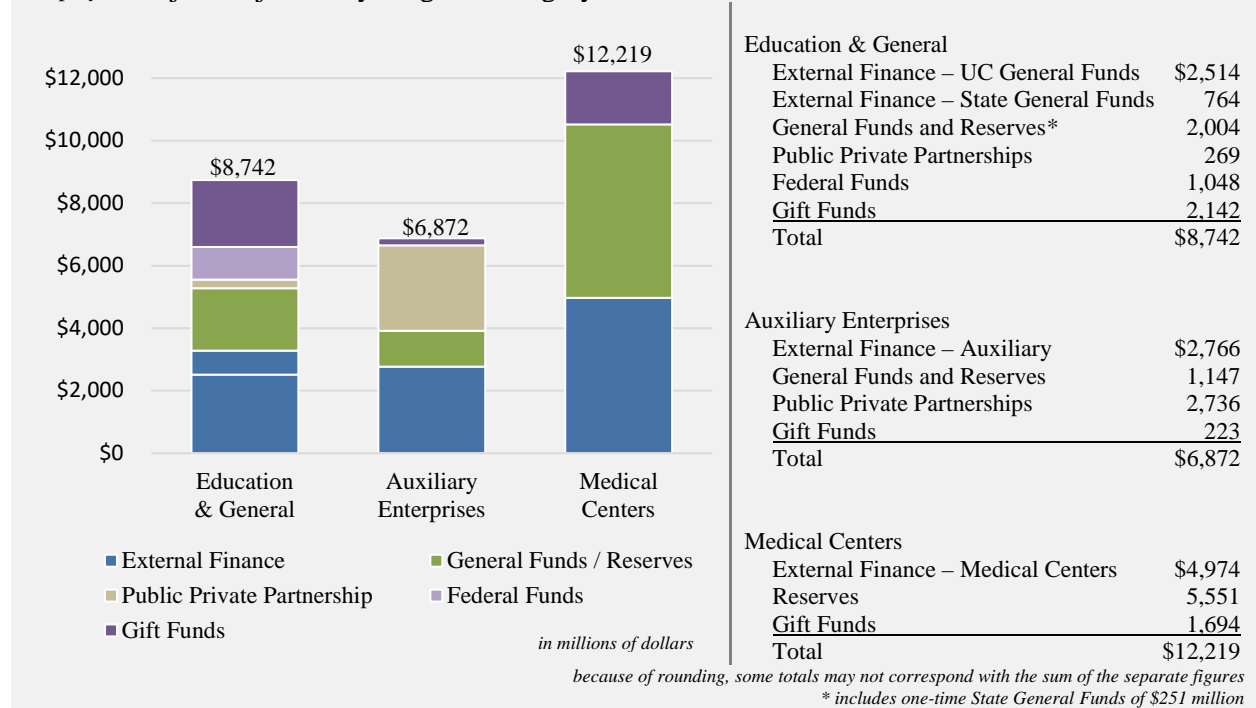
**Campus Auxiliary Enterprises.** Auxiliary enterprises generate revenue to support the capital needs and over two-thirds of their \$10 billion capital program has a funding plan. The program includes almost \$8 billion of capital need to expand and renovate campus dining and student housing programs, with some housing for faculty and staff. The remaining \$2 billion addresses student health and wellness, parking and transportation, athletics, and mixed use facilities, as well as capital renewal and deferred maintenance for all auxiliary enterprises.

**Medical Centers.** The five medical centers have identified capital needs totaling close to \$14 billion. Over \$8 billion funds new hospitals for UC Davis Health, UC San Diego Health, and UCSF Health (Parnassus Heights and Oakland) to meet state seismic standards by 2030, as well as a medical complex for UCI Health.

***Identified Funding for Capital Need***

As shown in Display 3, the University relies on a wide range of fund sources to directly fund or pay the debt service that supports the \$28 billion component of the capital program with an identified funding plan.

Display 3. Project Objective by Program Category



The CFP has two sources of State support for capital totaling \$1 billion.

- In accordance with the California Education Code, the University is authorized to finance capital projects that have been approved by the State and use a portion of its State General Fund support appropriation to pay the debt service. The CFP includes a total of \$764 million of projects to be funded under this financing mechanism for the 2019-20 State Capital Budget (\$213 million) and the proposed 2020-21 State Capital Budget (\$551 million).
- The second source of State support is \$251 million of one-time funds the University has received for deferred maintenance work (\$151 million, including \$144 million of one-time funds identified in the 2019-20 State Budget Act) and \$100 million of Children’s Hospital Bond Act of 2018 funds for Benioff Children’s Hospital in Oakland, a non-profit children’s hospital.<sup>2</sup>

There are not enough State resources available to UC to fully fund the capital need eligible for State support. In the absence of significant State funding for capital, campuses have had to use non-State resources to fund critical State capital need.

<sup>2</sup> This amount does not include \$270 million of Children’s Hospital Bond Act of 2018 funds for UC’s children’s hospitals. As projects are developed, these funds will appear in future plans.

***Funding Challenge of State Eligible Capital Need***

The CFP identifies \$24 billion in unfunded capital need — the majority of which (close to \$20 billion) is in State supportable education and general facilities. Display 4 summarizes the unfunded need.

<b>Display 4. \$19,587M of State Capital Need (2019-25)</b>	
Seismic	\$ 4,976
Life Safety	863
Aging Plant	5,041
Infrastructure	1,726
Activity Space/Other	6,981
<b>Total (\$M)</b>	<b>\$19,587</b>

UC campuses are regularly rated among the best in the nation. Facilities that support this excellence are aging, seismic standards have evolved, and many facilities have deferred maintenance needs. With continued growth in the University’s operations and changes in pedagogy and advances in technology, additional space is needed and existing space needs to be modernized to support these activities.

UC has always relied on funding from the State to support its capital program. The University cannot sustain its capital program on debt or non-State funds or rely on fundraising for capital projects. Without an infusion of additional funding, the ability to fully implement the capital program is uncertain and, in many cases, unlikely. This funding gap highlights the urgency for new State funding. A new State General Obligation bond could assist in furthering these unfunded projects with a focus on addressing seismic corrections, expanding capacity to accommodate enrollment increases, and renewing UC’s aging plant, including deferred maintenance. In a related item at this meeting, the President of the University is recommending that the Regents endorse the bond measure.

**Key to Acronyms**

CFP	Capital Financial Plan
E&G	Campus Education and General

[Attachment: University of California Capital Financial Plan, 2019-25](#)