

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of November 18, 2020

APPROVAL OF THE 2020-26 CAPITAL FINANCIAL PLAN

EXECUTIVE SUMMARY

The SARS-CoV-2 pandemic has had significant short-term effects on the campuses. Campuses' and medical centers' strategic and academic plans will evolve to support a new long term strategy that accounts for lessons learned from the pandemic. With the foregoing in mind, the 2020-26 Capital Financial Plan (CFP) is being produced at a time of change and transition. The capital projects in the plan represent a capital need; however given this evolution and resource constraints, only projects that address the most critical need with funding identified will move forward in 2020-21.

The CFP delineates the University's multi-year program of proposed new construction, renovation, and other capital investment. The 2020-26 CFP represents \$56 billion of capital need as articulated by the campuses and medical centers over this year and the next five fiscal years (through 2025-26). As summarized in the table below, the CFP includes campuses' and medical centers' full capital needs. UC has \$27 billion in unfunded capital need, the majority of which (almost \$21 billion) supports State eligible-education and general facilities.

\$55,823M of Capital Need (2020-26)			
	Campus	Medical Center	Total*
Capital Need with Funding	10,960	14,230	25,190
Capital Need with Funding Not Identified	25,284	1,671	26,955
Total (\$M)	36,244	15,901	52,145
Public Private Partnerships	3,483	195	3,678
GRAND TOTAL (\$M)	39,727	16,096	55,823

UC is currently undertaking two significant capital initiatives—comprehensively assessing and addressing seismic and deferred maintenance issues. These initiatives have informed this year's CFP and are key reasons that the total capital need has increased from last year's CFP. In this action, the Regents are being asked to approve the 2020-26 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 2020-26 Capital Financial Plan be approved.

BACKGROUND

The University's capital program is driven by the campuses' and medical centers' academic and strategic plans and is informed by a development and design framework. 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.

PROGRAM ORGANIZATION

The CFP has three program categories.

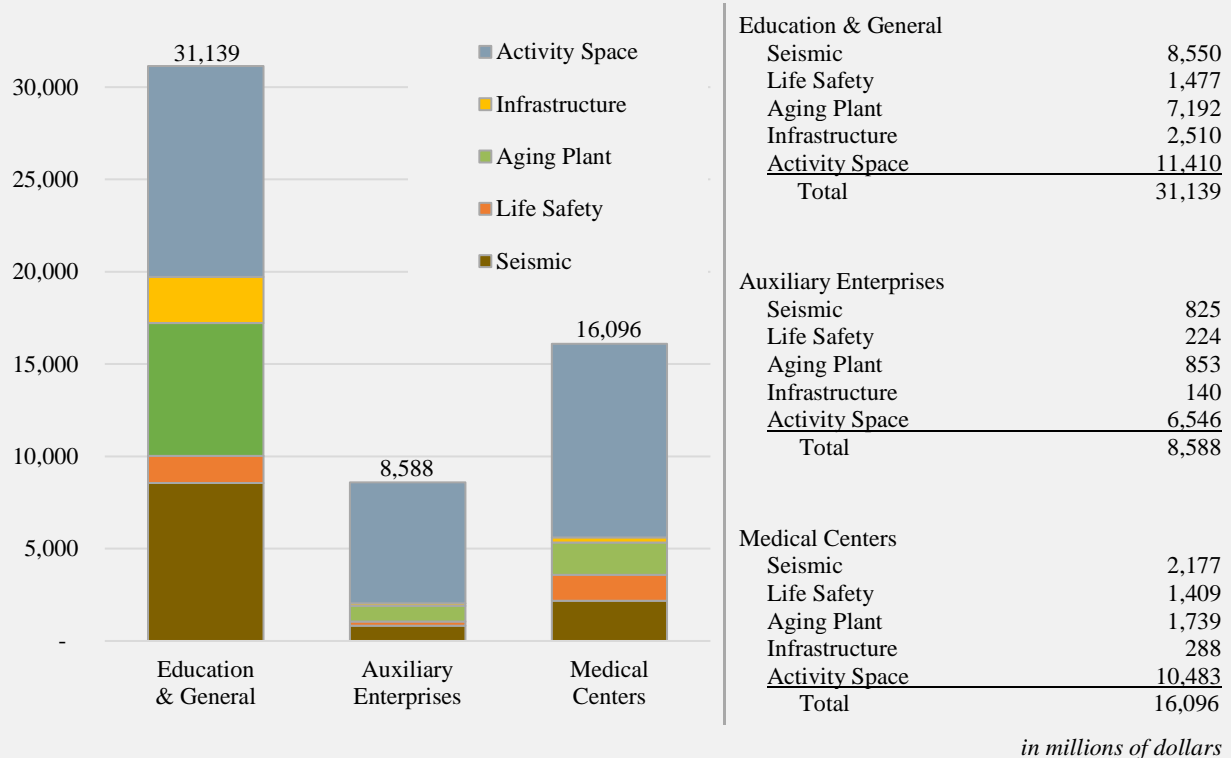
- **Campus Education and General.** These projects involve the construction and renovation of instruction, research, and student service space as well as administrative space and infrastructure that supports the academic program. The Education and General category also includes education related to the health sciences.
- **Campus Auxiliary Enterprises.** The auxiliaries 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 Centers.** These 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. A summary of project objective by location may be found in Attachment 1.

Seismic

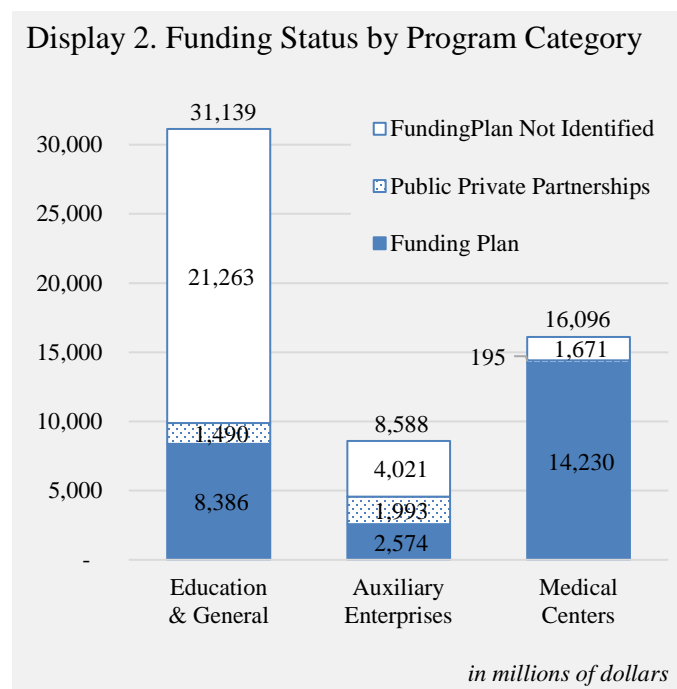
As of July of this year, almost 4,000 buildings out of over 6,000 have been seismically evaluated and reported. The CFP includes over 570 campus and medical center projects that address seismic issues; 240 of these projects have been identified with funding and 330 have been identified without. As the projects are developed, campuses are incorporating critical deferred maintenance associated with the building as well as all required building code and life safety updates triggered by the seismic improvement work. Campuses' development of overall strategic campus plans will better establish seismic priorities and a methodology for implementing improvements over the next few years while considering the option and cost associated with retrofit vs. building replacement.

Aging Plant

The aging plant capital need is predominantly attributable to deferred maintenance, the backlog of asset replacement and renewal resulting from the lack of sufficient regular and predictable investment in capital renewal. UC's growing deferred maintenance liability precipitated the multi-year development and implementation of a comprehensive Integrated Capital Asset Management Program (ICAMP). ICAMP is a database platform that supports a data-driven approach to systemwide and campus-level capital investment decisions based upon common methodology identifying, quantifying, and prioritizing asset renewal and deferred maintenance needs using associated risk. Phase I of the standardized Facility Condition Assessment (FCA) program needed to initiate ICAMP is near completion, with over 90 percent of the approximately 62 million square feet of State-eligible facilities inventoried and assessed for condition and risk. To date, the Phase 1 FCAs have identified over 34,000 deferred maintenance opportunities, prioritized based on the consequence and likelihood of failure. An update on ICAMP and findings following completion of Phase 1 will be presented to the Regents at a meeting in early 2021.

FUNDING FOR CAPITAL NEED

UC has identified \$56 billion of capital need. Approximately one-half (48 percent) of the plan, or \$27 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.



Campus Education and General. In general, education and general 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, little more than a quarter (27 percent or \$8 billion) of this \$31 billion program has a funding plan.

Campus Auxiliary Enterprises. Auxiliary enterprises generate revenue to support the capital needs. The auxiliary enterprise projects are predominantly related to campus dining and student housing. The campus dining and housing operations have revenue losses due to the SARS-CoV-2 pandemic. As a result, almost half (47 percent or \$4 billion) does not have a funding plan.

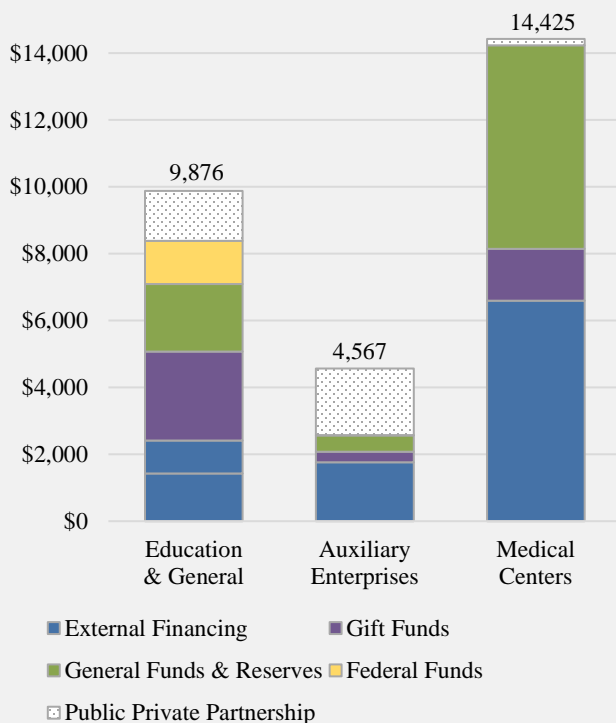
Medical Centers. The five medical centers have identified capital needs totaling \$16 billion. Over \$10 billion funds new hospitals for UC Davis Health, UC San Diego Health, and UCSF Health (Parnassus Heights and Oakland) to meet State seismic standards by the 2030 deadline, as well as a medical complex for UCI Health.

Funding status by location may be found in Attachment 2.

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 \$25 billion component of the capital program with an identified funding plan.

Display 3. Identified Funding Plan by Program



Education & General		
External Finance – UC General Funds	1,429	
External Finance – State General Funds	981	
Gift Funds	2,664	
General Funds and Reserves*	2,018	
<u>Federal Funds</u>	<u>1,294</u>	
Total	8,386	
<u>Public Private Partnerships</u>	<u>1,490</u>	
GRAND TOTAL	9,876	

* includes one-time State General Funds of \$150 million

Auxiliary Enterprises		
External Finance – Auxiliary Funds	1,761	
General Funds and Reserves	490	
Gift Funds	313	
<u>Federal Funds</u>	<u>10</u>	
Total	2,574	
<u>Public Private Partnerships</u>	<u>1,993</u>	
GRAND TOTAL	4,567	

Medical Centers		
External Finance – Medical Center Funds	6,598	
Gift Funds	1,550	
<u>Reserves</u>	<u>6,082</u>	
Total	14,230	
<u>Public Private Partnerships</u>	<u>195</u>	
GRAND TOTAL	14,425	

in millions of dollars

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 redirect a portion of its State General Fund appropriation from operating needs to pay debt service for capital projects that have been approved by the State. The project list of \$981 million includes projects from the approved 2019-20 and 2020-21 and proposed 2021-22 Budgets for State Capital Improvements. The second source of State support are funds the University has received for deferred maintenance work of \$150 million.

CONCLUSION

The University's capital need far exceeds funding resources. UC has always relied on funding from the State to support its capital program. There are not enough State resources available to UC to fully fund the capital need eligible for State support. Average State support over 2013-14 to 2020-21 is \$303 million per year (\$222 million per year if the Merced 2020 project is excluded), all of which is a reallocation of operating funds to support debt service for the capital program. In contrast, average State support for the period 1996 to 2012 was nearly \$500 million per year, with funds allocated specifically for capital. In the absence of significant State funding for capital, campuses have had to use non-State resources to fund critical State capital need.

In light of the lessons that are continuing to be learned from the SARS-CoV-2 pandemic, campuses are conducting research that may provide greater insight into what educational

activities require a residential experience, where there are opportunities to change the educational delivery model and expand access, and how these activities can preserve and promote student success. Metrics on space planning will most likely change. Future Capital Financial Plans will need to evolve to address the research findings and reflect updated space planning principles.

Key to Acronyms

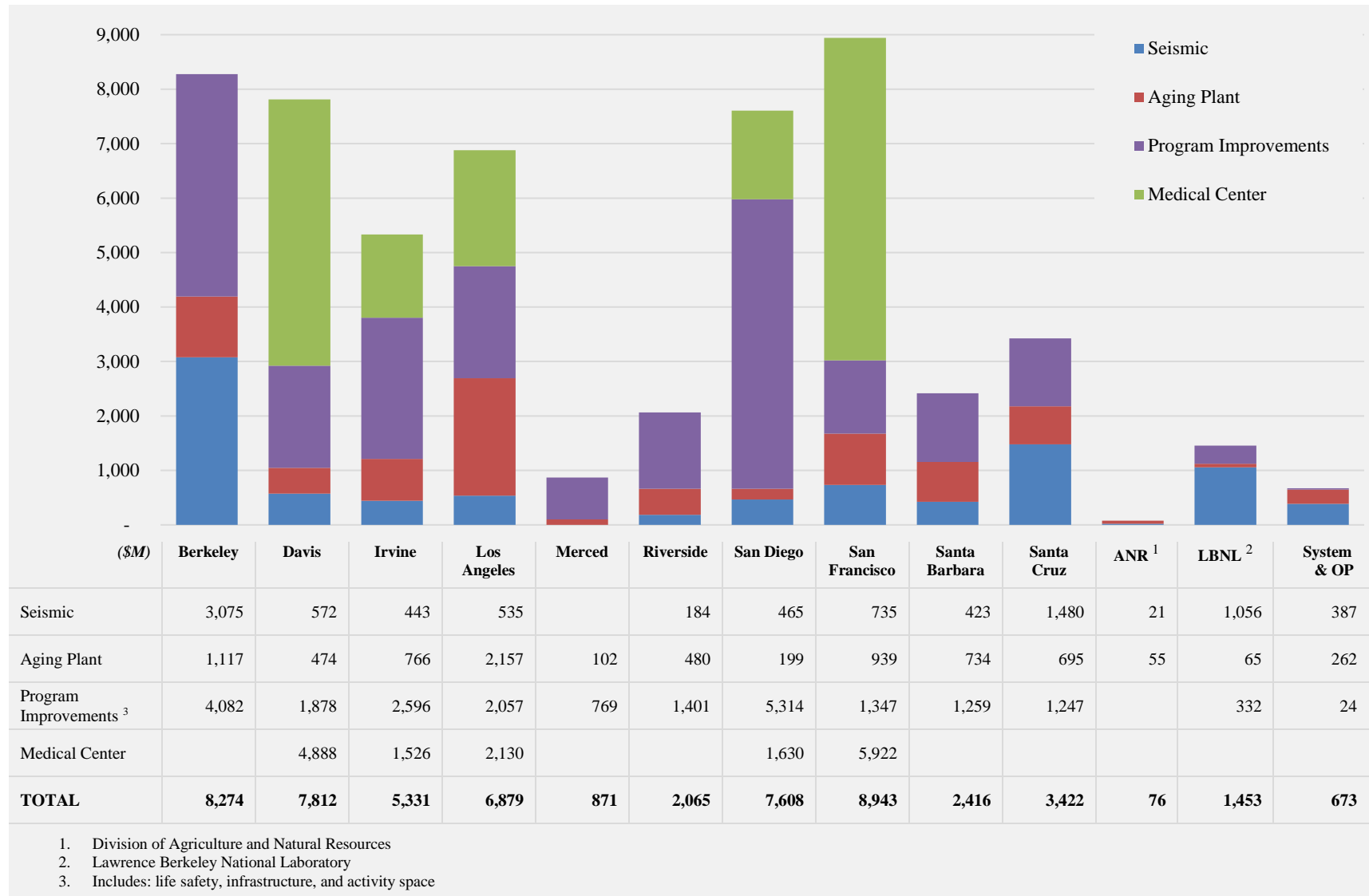
CFP	Capital Financial Plan
FCA	Facility Condition Assessment
ICAMP	Integrated Capital Asset Management Program

ATTACHMENTS

Attachment 1	Summary of Project Objective by Location
Attachment 2	Funding Status by Location
Attachment 3	UC Capital Financial Plan 2020-26

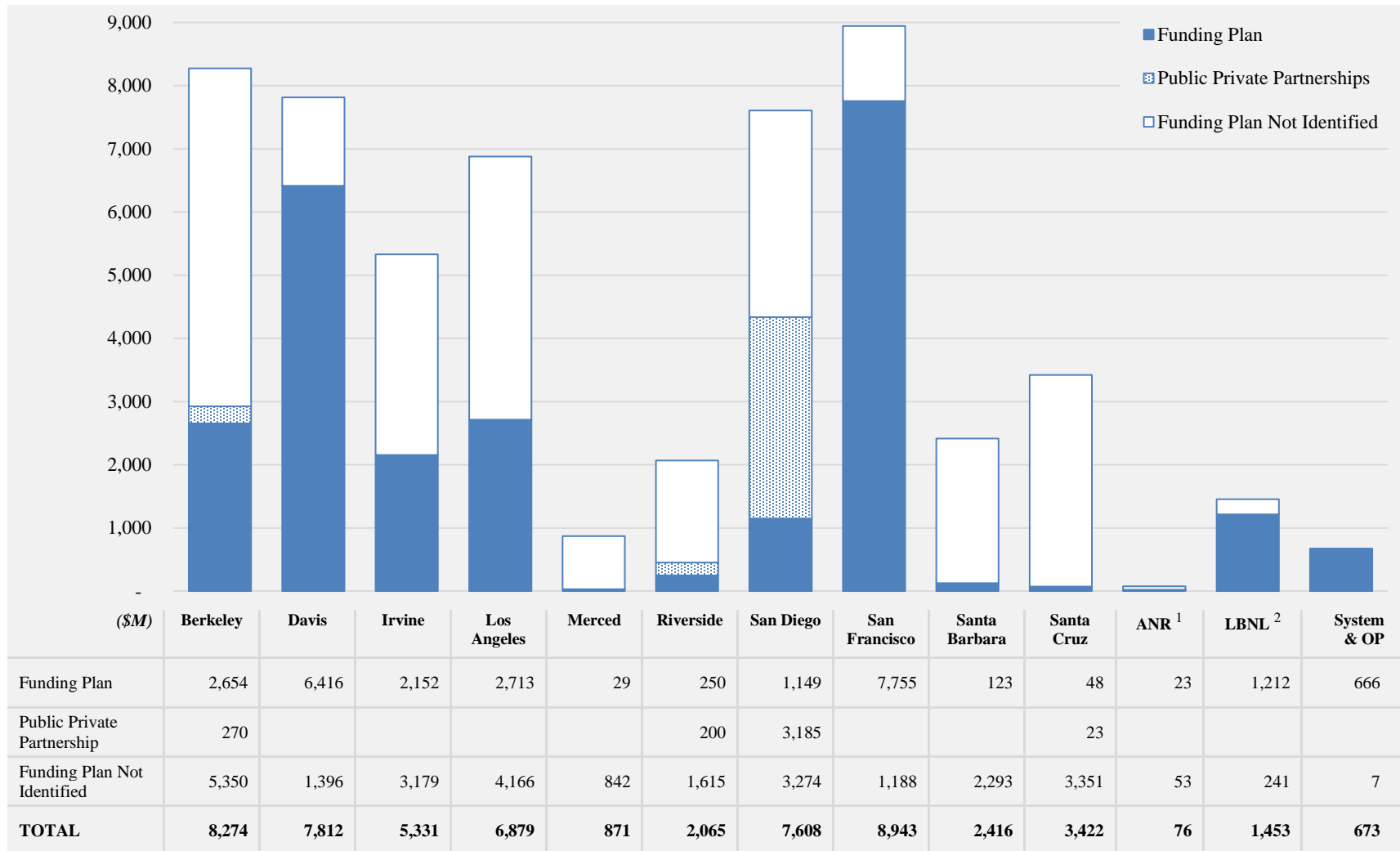
ATTACHMENT 1

SUMMARY OF PROJECT OBJECTIVE BY LOCATION



ATTACHMENT 2

FUNDING STATUS BY LOCATION



1. Division of Agriculture and Natural Resources

2. Lawrence Berkeley National Laboratory