The Building Blocks of Capital Projects
Financial Literacy Training
April 24, 2018

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Capital Financing - Overview

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Adile Quennarouch
Director, Finance
UC Berkeley Office of the Vice Chancellor of Finance
A few key facts about UC Berkeley’s campus:

- 650 buildings
- 180 acres
- 15 million square feet
Among the first UC buildings was South Hall (left), first home of the College of Agriculture; it still stands on the UC Berkeley campus, just east of the Campanile. The 1873 image shows South and North Halls, looking west toward the San Francisco Bay.
UC Berkeley - today
UC Berkeley’s physical infrastructure is the oldest in the UC system.
Significant portions of the UC campus are directly astride the Hayward fault line.
Our key capital challenge is finding financially sustainable ways to support the physical infrastructure needs of a modern, world-class university on the UC system’s oldest campus while ensuring the safety of our community.
Some capital challenges that we are currently addressing.

1. **Achieving Carbon-Neutrality by 2025**
   - The University of California system has pledged to become carbon neutral by 2025.
   - Investing in greener energy delivery options would require significant capital investments.

2. **Addressing Seismic Deficiencies by 2030**
   - UC updated its seismic policy in 2017. The seismic policy requires us to implement remediation plans – essentially strengthen the building or vacate - for each seismically unacceptable building by 2030.

3. **Creating Thousands of New Student Housing Units**
   - We currently house the lowest % of students on campus in the system. Approx. 22% for undergraduates. The Housing Task Force recommended creating thousand(s) of new housing units to remedy the current shortage.
Large building/capital projects are funded with cash and/or debt.
Debt is usually long-term or short-term.

1. Long-term
   - General Obligation Bonds
     - General obligation bonds are debt instruments issued by states and local governments to raise funds for public works. States can use tax revenues to pay the debt.
   - General Revenue Bonds
     - The General Revenue Bond (GRB) credit serves as the University’s primary borrowing vehicle. The GRB is secured by the University’s revenues.
   - Limited Project Revenue Bonds
     - Limited Project Revenue Bonds (LPRB) are used to finance primarily auxiliary services such as student housing or parking. Only the revenues generated by the projects are used to pay the debt.

2. Short-term
   - Commercial Paper
     - The Commercial Paper (CP) program provides interim funding for approved projects that are eventually to be funded using permanent financing (i.e. long-term debt).
   - Line of Credit
     - When a project has received gift pledges, standby financing/lines of credit can be arranged in order to bridge the timing difference between project expenditures and receipt of gift funds.
While our capital needs have never been greater, state support for capital projects has dried out.

The last state general obligation bond in support of our capital needs was issued in 2006.

Source: UCOP 2014-24 Capital Financial Plan – p5. Note that proceeds are usually distributed over several years.
The University had little choice but to fund needed investments, in part, through long-term debt.

Sample Building List (non-exhaustive)

- Sutardja Dai Hall
- Memorial Stadium
- Li Ka Shing Building
- Stanley Hall
- Berkeley Art Museum
- Lower Sproul

$1,900M
DEBT INCURRED
2005 - 2017
However, 2/3 of the debt taken was for seismic reasons, to ensure the safety of our community.
Approx. 3/4 of the new square footage has been to support students and our core academic mission.
By historical standards, debt is cheap

Source: Board of Governors of the Federal Reserve System (US) fred.stlouisfed.org
Our access to debt is controlled by the Office of the President

Simplified Process Overview

INTERNAL PROCESS

If approved and requires debt

If approved

Review business case
Assess financial feasibility and credit worthiness
Issue debt on behalf of the campus

Approved?

Source: CFO office analysis

Source: UCOP/Regents
Credit worthiness is determined via UCOP’s debt affordability model

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Description</th>
<th>Test</th>
<th>Dashboard</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modified Cash Flow Margin</td>
<td>Income Available for Modified Cash Flow Margin / Adjusted Operating Revenues</td>
<td>≥ 0%</td>
<td>0.0% - 7.0%</td>
<td>X</td>
</tr>
</tbody>
</table>

Note: Must meet 1 of 2
Large building/capital projects are funded with cash and/or debt
So where does that leave us?

“Next time be more careful where you put the decimal point!”
Option 1: Improve our operating performance

Source: CFO office analysis
Option 2: Fundraising and Collaborating

Chou Hall
Option 3: Public Private Partnerships

David Blackwell Hall
Option 4 - Mixed use buildings

GSPP Proposal

Source: CFO office analysis
Capital Projects Overview

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Judy Chess
Director, Capital Planning
UC Berkeley Capital Strategies
Information about capital projects.

• What is a capital project?

• How does the campus make decisions about capital projects? What is the review and approval process?

• What do I do if my department has an idea or a programmatic need for a project?
Capital Projects

capital improvement project -CIP: New construction, substantial alterations, extensions, or improvements to existing structures

• major CIP: estimated cost in excess of $750,000.
• minor CIP: estimated cost not to exceed $750,000.

maintenance. The ongoing upkeep of buildings, equipment, roads, grounds, and utilities required to keep a Facility in a condition adequate to support the University’s academic, scientific, and public service functions.
Capital Strategies

• Proposal Intake process

• Physical and Environmental Planning

• Real estate development (leases, P3 projects, donor developer projects)

• Capital Projects – design and construction for approved projects
UC Berkeley evaluation criteria for capital projects.

1. **Academic Excellence**
   - Criticality for sustaining academic excellence; aligned with campus priorities
   - Potential for exploring bold new academic/research areas
   - Criticality for student experience and access (equity & inclusion, outreach)
   - Anticipated impact (reputation, # of students/programs, revenue, etc.)

2. **Land Use Fit and Facility Issues**
   - Use of the space, facility, land; physical impacts (e.g. design, land use, and environmental)
   - Alignment with facilities sustainability, incl. campus systems
   - Health & safety, seismic, and legal
   - Alignment with land use plans & agreements (LRDP, EIR, Climate Action Plan, Downtown Area Plan, Southside Plan)

3. **Financial Feasibility**
   - Revenue generation potential
   - Financial underwriting and sustainability;
   - Full disclosure of costs
   - Fundraising Potential (based on prospect base, staffing, fundraising case and gifts pledged)
Is proposal consistent with strategic academic planning, facility use and land use and environmental planning?

Is suggested funding strategy aligned with campus budget and debt policy?

Is there a valid funding strategy from philanthropic sources?

**Capital project evaluation scoresheet.**

- **Weighted VC Finance**
  - Financial underwriting and sustainability
  - Affects health & safety, seismic, and legal

- **UDAR**
  - Is suggested funding strategy aligned with capital project evaluation scoresheet.

- **Philanthropic sources?**
  - Environmental planning?
  - Facility use and land use and planning?

**Capital Project Evaluation Form**

- **PROPOSAL CRITERION ASSESSORS SCORE SCORING RUBRIC**
  - **WEIGHT**
  - **NOTE:**

- **N/A**
  - **3**
  - **4**
  - **5**

- **Revenue generation potential VC Finance**
  - **Finance**
  - **Full disclousure of costs**
  - **Criticality for sustainability, full disclosure of costs**

- **Legal/Compliance Issue**
  - **Mandated from campus, system, or state**
  - **Legal/Compliance Issue**

- **Philanthropic sources?**
  - **Environment, philanthropic sources?**
  - **Philanthropic sources?**
  - **Philanthropic sources?**

- **AVERAGE WEIGHTED SCORE:**
  - **0**
  - **1**
  - **2**
  - **3**
  - **4**
  - **5**
UC Berkeley project initiation request.

1. Project proposals
   - Project proposals are submitted via the Capital Planning intake process.
   - Proposals must contain:
     • Program description and justification
     • Cost estimate & funding plan
     • Proposed schedule
   - [Link](http://realestate.berkeley.edu/initiate-project-or-initiate-project-study)

2. Review of proposals
   - Proposals are first reviewed by a team of staff.
   - Additional due diligence, if needed, is done by the staff team. Alternatives may be proposed.
   - Team of staff from:
     • VC Finance
     • Capital Strategies
     • Facilities Services
     • Vice Provost for Academic and Space Planning

3. Recommendations
   - Recommendations from staff team are forwarded to team of administrators for their review and inputs.
   - Team of administrators:
     • Vice Provost for Academic and Space Planning
     • VC Finance
     • AVG Capital Strategies
     • VC UDAR
   - After review, additional information or clarification may be requested.

4. Decision
   - The proposal is sent to the Capital Planning Committee for review.
   - CPC composition:
     • Executive Vice Chancellor & Provost (chair)
     • VC Administration
     • VC for Student Affairs
     • VC for University Relations and Development
     • VP for Academic and Space Planning
     • VC Finance
     • VC Research
     • Academic Senate chair
     • CAPRA Chair

   After the project is approved, fundraising efforts should commence. 100% of the required funds must be in hand before any construction can begin.

   Project is approved or denied.
   Project is sent back to the staff team for additional information gathering.
Approval process: From UC Berkeley to UC Regents (simplified)

1. Unit or department has planning idea. Submits a project initiation request.
2. Planning staff reviews request.
   - Complex projects reviewed by: UDAR, VCF, FS, VP-ASP
3. Project evaluation scoresheet.
   - Only if complex
   - Results sent to leadership group “quartet”
   - Quartet approves or refers to CPC
4. Project cost less than $5M (funds available)
   - Review business case and pursue financing/funding
   - Project cost greater than $5M and/or requires debt
5. Chancellor approval
6. Capital Projects implements project

Source: Capital Strategies rev. 11-1-17
UC Berkeley capital project proposals FY2016-17

• 120 proposals received

• 80% of submitted proposals went directly to Capital Projects for assignment to PM; 20% went for staff and/or leadership review
  • Of those 20%, ¾ went to the Capital Planning Committee (CPC) for formal discussion.

• Types of projects that the CPC reviews:
  • Goldman Upper Hearst Development
  • Video signage at the Stadium and Haas Pavilion
  • Greek Theatre Improvements
  • Botanical Garden Accessibility Improvements
Information Resource

Project Report Summaries

Projects

- Design & Planning
- Under Construction
- Recently Completed
- Project Report Summaries

Active Capital Projects: Summary Report  [pdf]  [xlsx]

PRR Projects (FY17-18 and beyond created on or after July 1, 2017)  [pdf]  [xlsx]

Capital Projects Prism Report

PRR Projects Report (Through FY16-17 Projects created prior to July 1, 2017)

Tips for using Capital and PRR Projects reports:

- Accessing: The Capital and PRR Projects reports are only available from on-campus devices. If you are off campus, you can access them via the remote desktop service provided by the University through the secure VPN.
Controller’s Office Activities for Capital Projects

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Lisa Vanderfin
Director-Financial Accounting & Controls
Controller's Office
## Capital projects: FY15 thru FY17

<table>
<thead>
<tr>
<th>Project Type</th>
<th>FY15 #</th>
<th>FY15 $</th>
<th>FY16 #</th>
<th>FY16 $</th>
<th>FY17 #</th>
<th>FY17 $</th>
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<tbody>
<tr>
<td>Major (&gt;=$750k)</td>
<td>93</td>
<td>$321M</td>
<td>94</td>
<td>$110M</td>
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<td>$137M</td>
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<td>Minor ($35k-$750k)</td>
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<td>$11M</td>
<td>96</td>
<td>$13M</td>
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<td>$12M</td>
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<tr>
<td>Study &amp; Other</td>
<td>53</td>
<td>$51M</td>
<td>56</td>
<td>$68M</td>
<td>40</td>
<td>$21M</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>231</td>
<td>$383M</td>
<td>246</td>
<td>$191M</td>
<td>216</td>
<td>$170M</td>
</tr>
</tbody>
</table>
Controller’s office activities for capital projects

- Review project initiation request and establish capital project id based on scope of work and budget
- Establish plant funds based on funding sources
- Record capital project budget amounts and funding appropriations/transfers
- If applicable, determine monthly loan draws and state claims and process
- Record interest, insurance, other capital project costs and debt payments from UCOP
Controller’s office activities for capital projects

- Upon completion, transfer capital project to capital asset and return any unused funding
- Generate annual capital asset file for UCOP and record depreciation expense from UCOP
- Write-off capital assets and related accumulated depreciation for disposals
- Prepare year-end financial reporting and handle external audit activities
Capital projects accounting

- Accounting standards and UCOP policy requirements require that capital projects be recorded in Plant funds
- Campus budget and financial management model associates plant funds with central deptids
- Capital project costs are recorded as an asset on the balance sheet
- Upon completion, capital project costs are reclassified to capital assets and depreciated at a campus level in accordance with UCOP policy
Thank you!
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Questions?
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