

# 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:

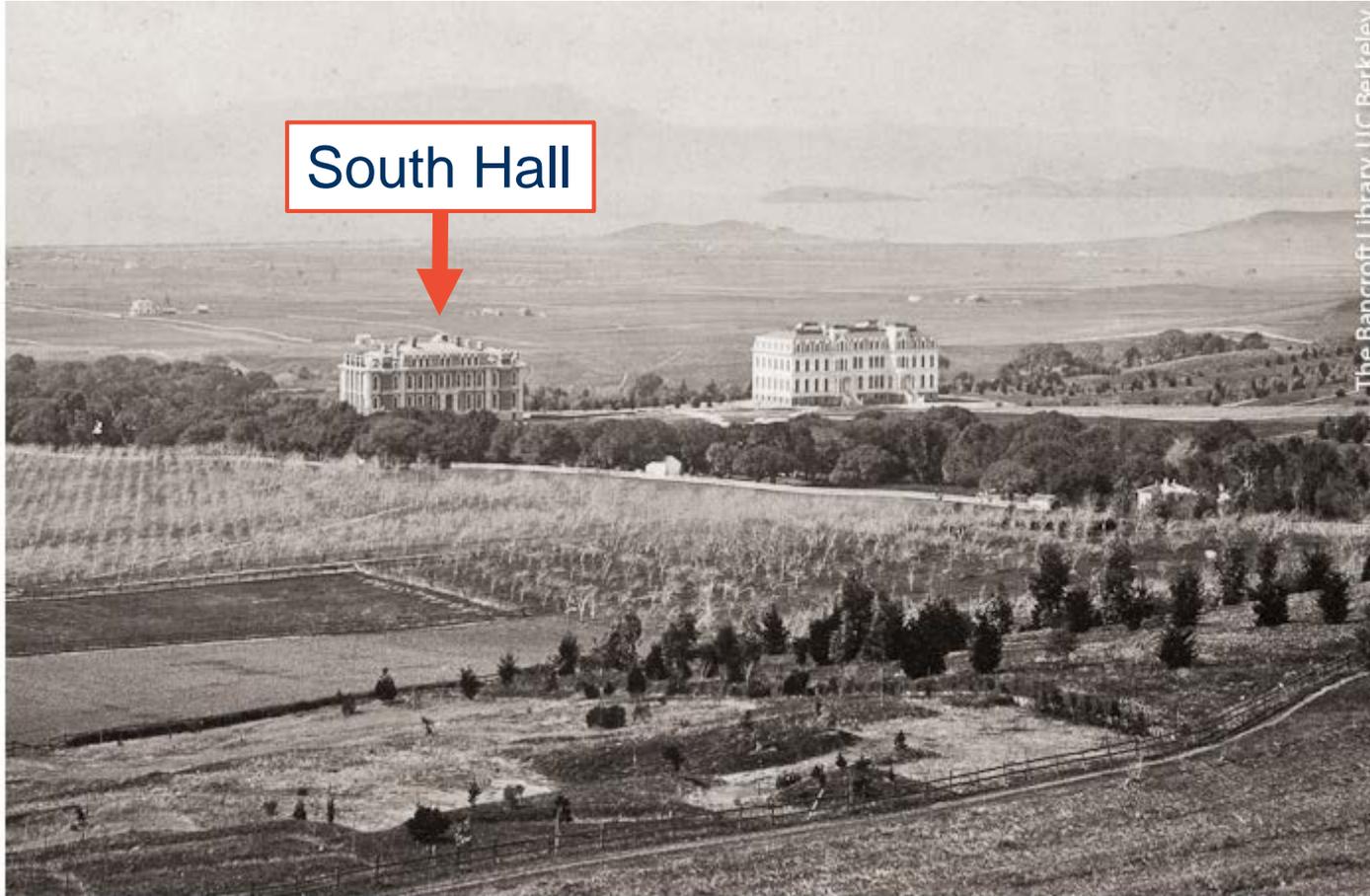


650 buildings

180 acres

15 million square feet

# UC Berkeley - 1873



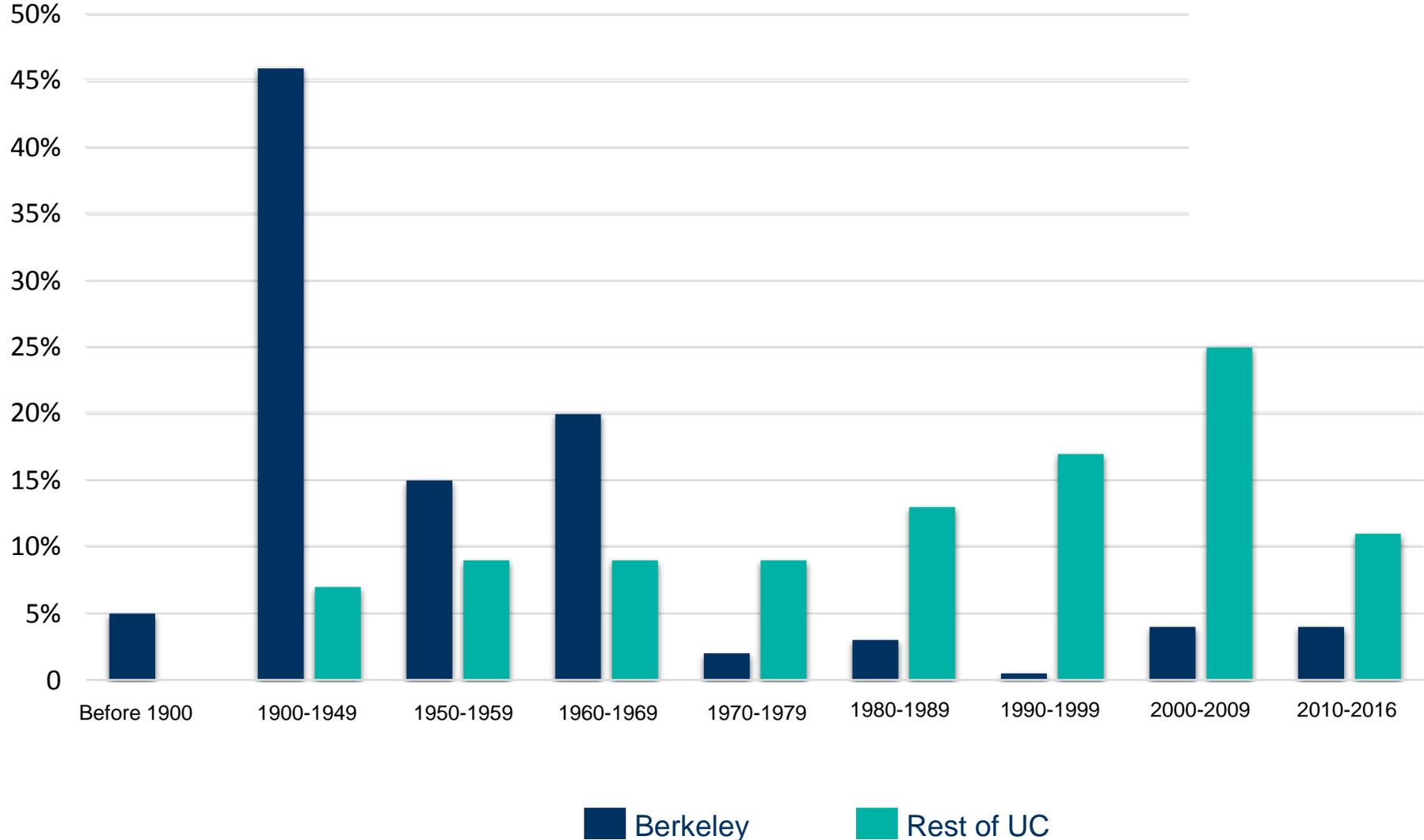
Among the first UC buildings was South Hall (left), first home of the College of Agriculture; it still stands on the UC Berkeley campus, just east of the Campanile. The 1873 image shows South and North Halls, looking west toward the San Francisco Bay.

# UC Berkeley - today

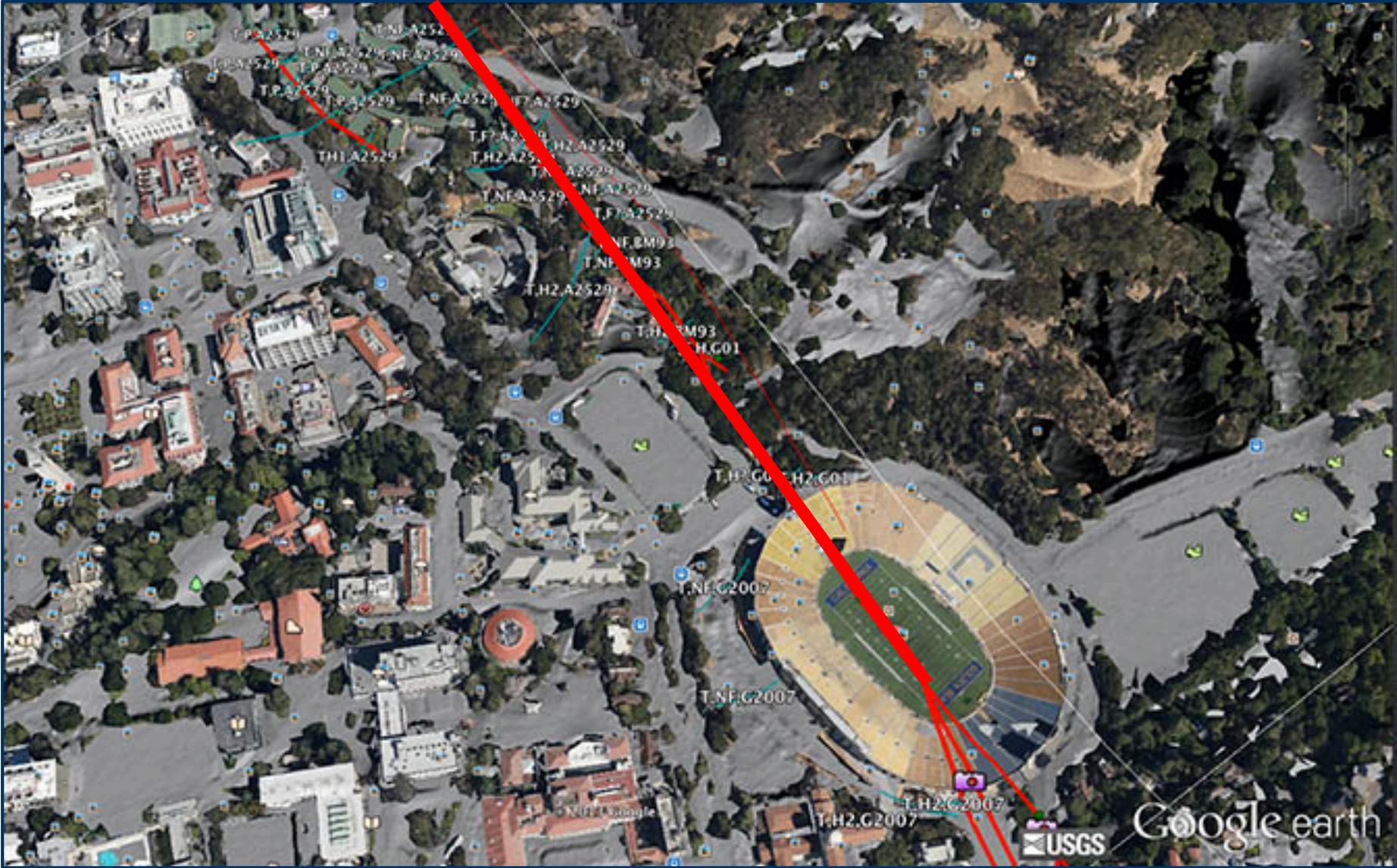


**UC Berkeley's physical infrastructure is the oldest in the UC system.**

**Percentage of Buildings Constructed During Various Periods of Time**



**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.**

Capital Needs



Financial Capacity



## 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.

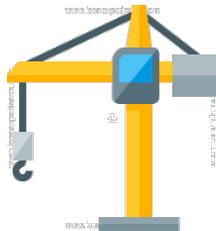
2



### 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



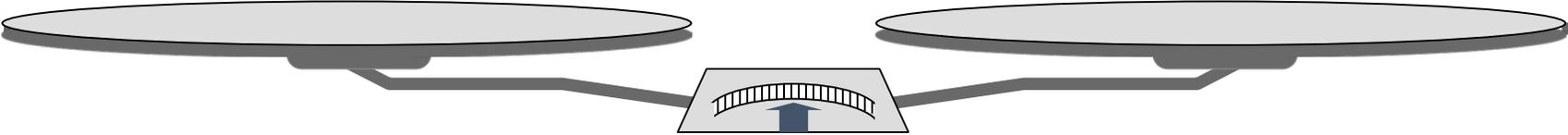
### Creating Thousands of New Student Housing Units

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.

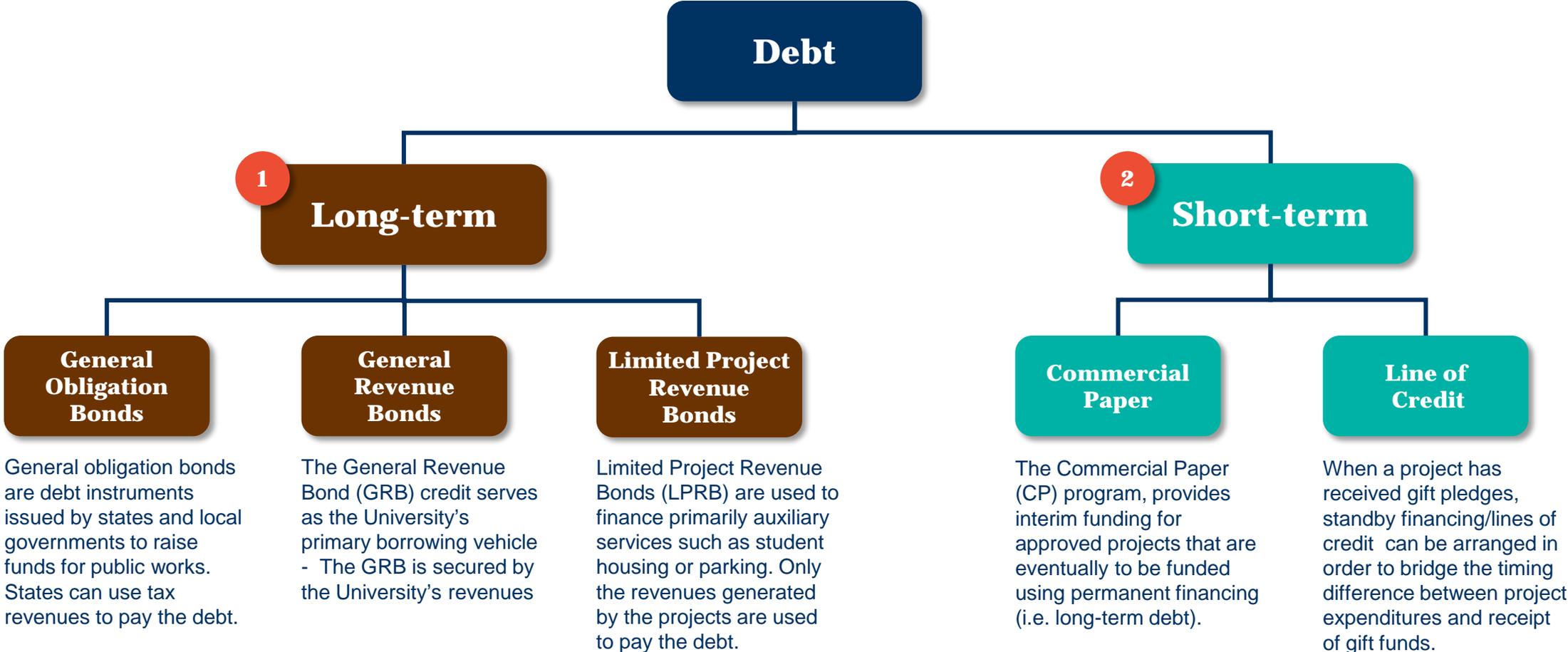
**Large building/capital projects are funded with cash and/or debt.**

**CASH**

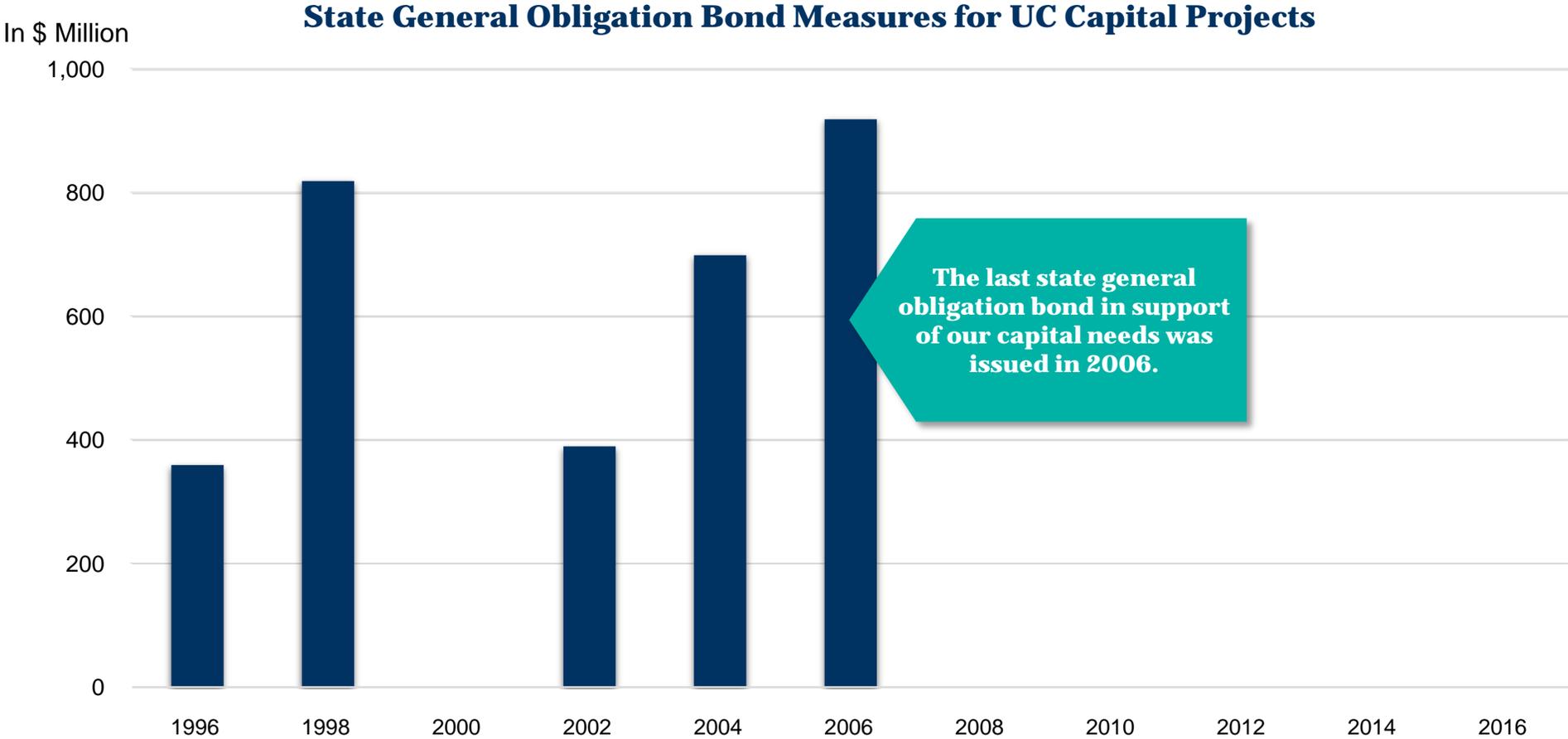
**DEBT**



# Debt is usually long-term or short-term.



**While our capital needs have never been greater,  
state support for capital projects has dried out.**



**The University had little choice but to fund needed investments, in part, through long-term debt.**

**\$1,900M**  
DEBT INCURRED  
2005 - 2017



**Sample Building List (non-exhaustive)**



Sutardja Dai Hall



Memorial Stadium



Li Ka Shing Building



Stanley Hall

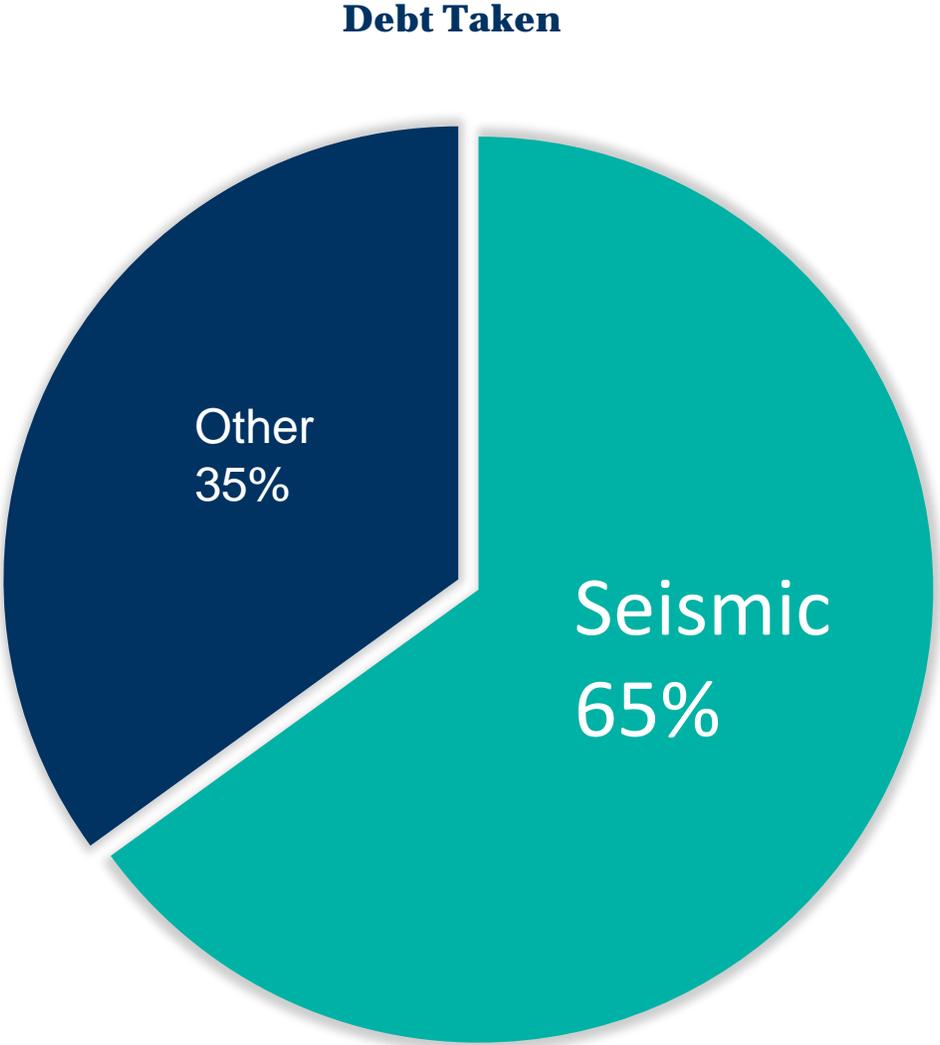


Berkeley Art Museum

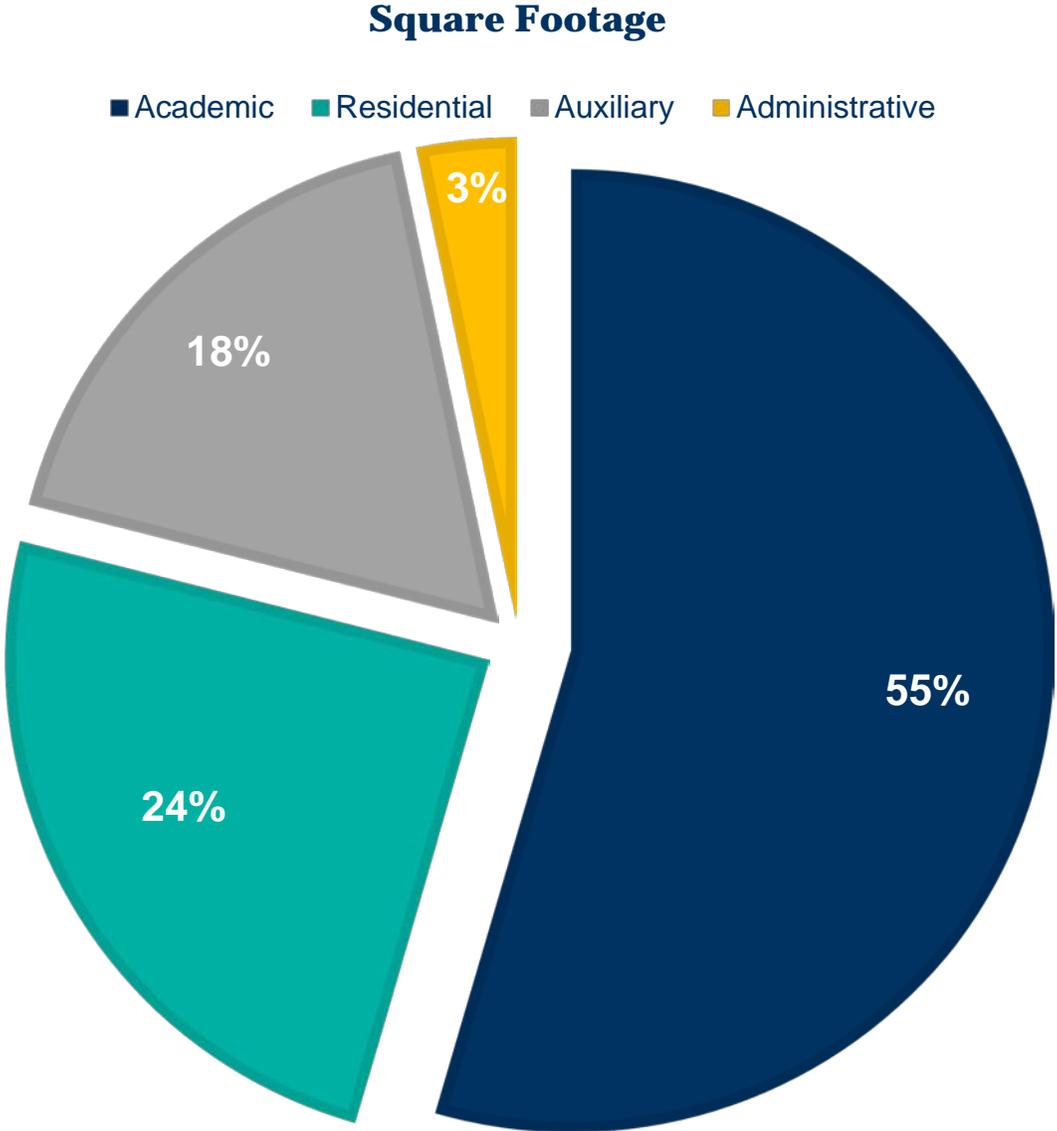


Lower Sproul

**However, 2/3 of the debt taken was for seismic reasons, to ensure the safety of our community.**

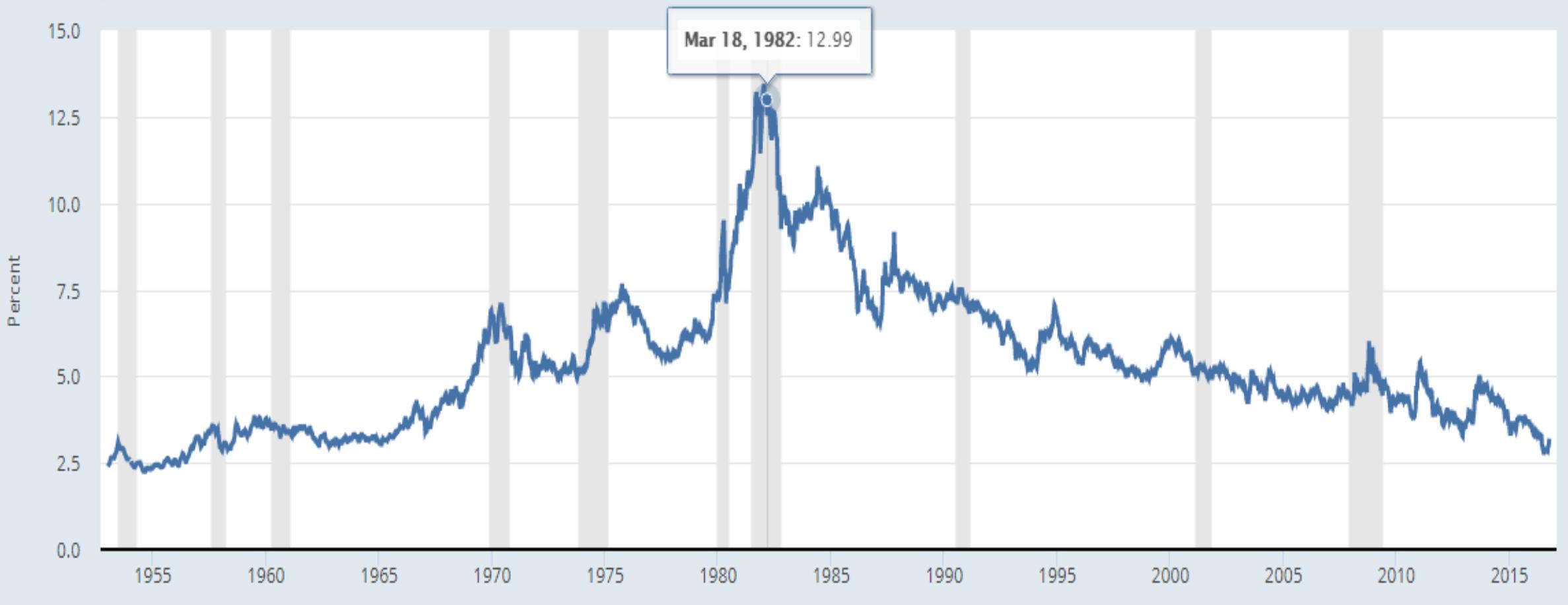


**Approx. 3/4 of the new square footage has been to support students and our core academic mission.**



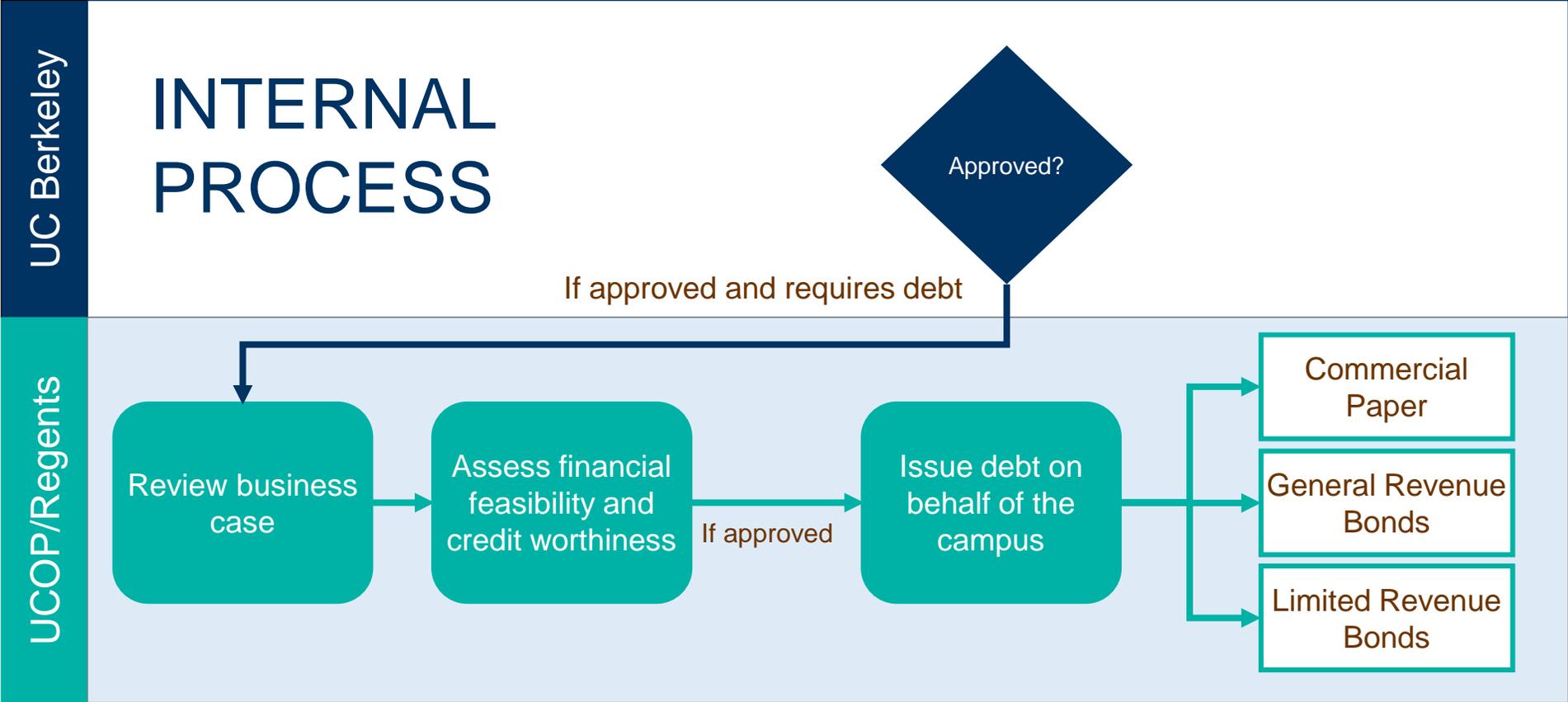
# By historical standards, debt is cheap

## Bond Buyer Go 20-Bond Municipal Bond Index

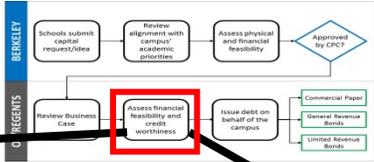


# Our access to debt is controlled by the Office of the President

## Simplified Process Overview

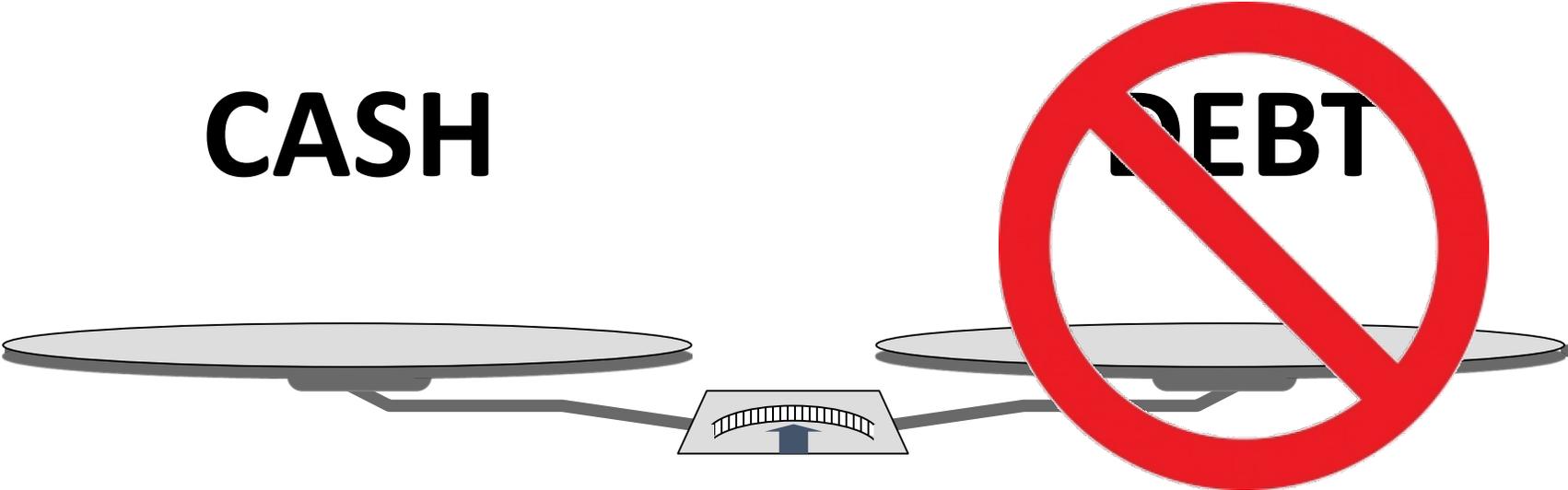


# Credit worthiness is determined via UCOP's debt affordability model



Ratio	Description	Test	Dashboard	Status
Modified Cash Flow Margin	Income Available for Modified Cash Flow Margin / Adjusted Operating Revenues	$\geq 0\%$		<p style="text-align: center; font-size: 2em; color: red;">X</p> <p style="text-align: center;">Must meet 1 of 2</p>

**Large building/capital projects are funded with cash and/or debt**

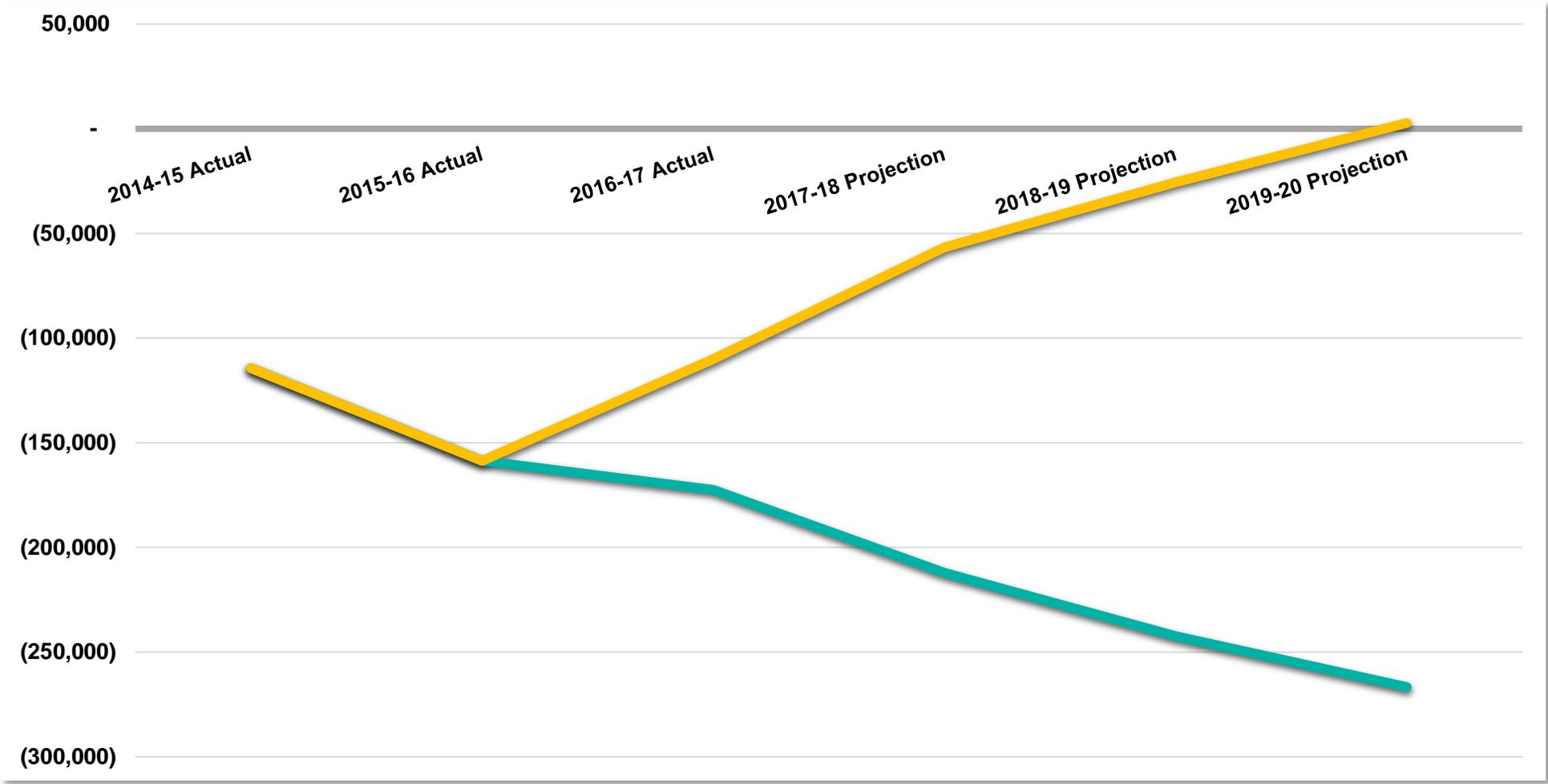


**So where does that leave us?**



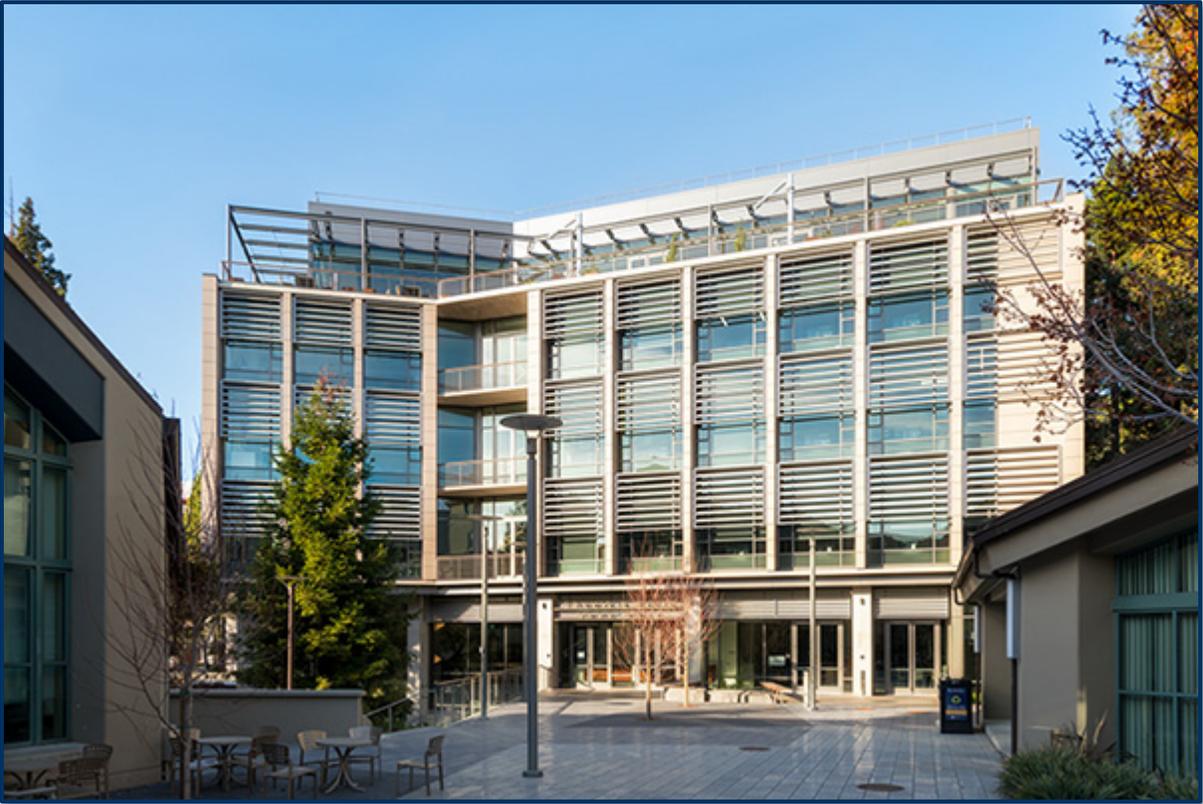
**"Next time be more careful where you put the decimal point!"**

# Option 1: Improve our operating performance



# Option 2: Fundraising and Collaborating

Chou Hall

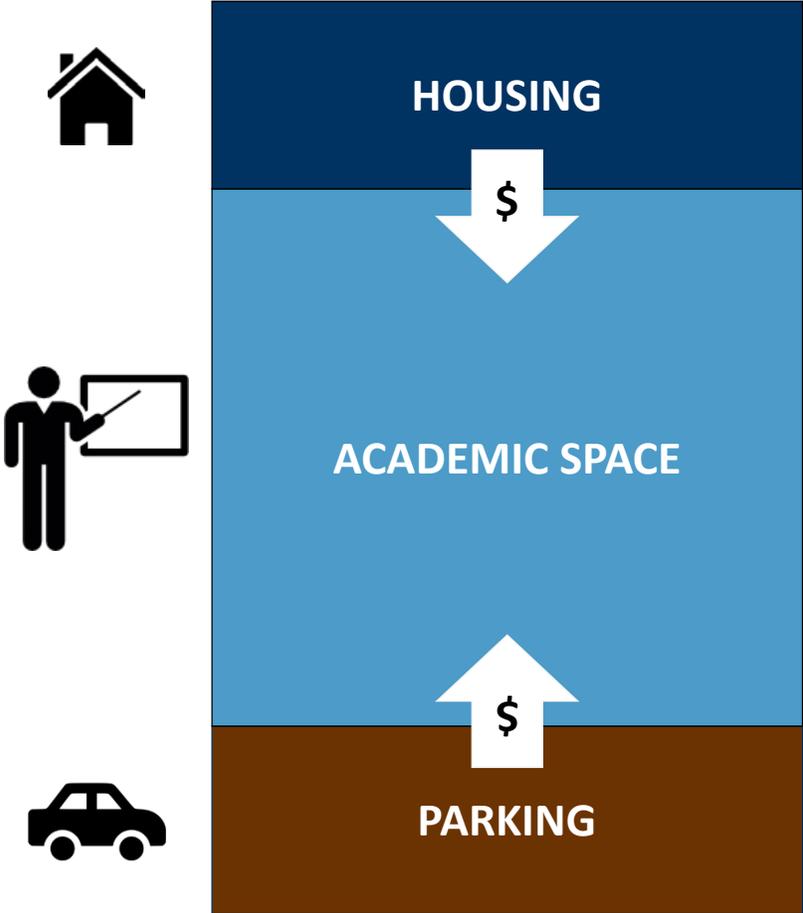


# Option 3: Public Private Partnerships

## David Blackwell Hall



# Option 4 - Mixed use buildings



GSPP Proposal



# Capital Projects Overview

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**Judy Chess**

Director, Capital Planning

UC Berkeley Capital Strategies

# Information about capital projects.

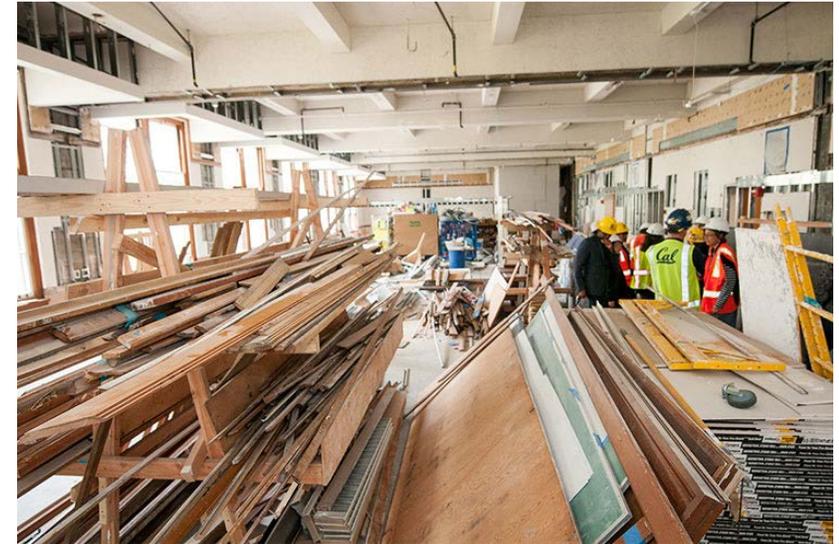
- What is a capital project?
- How does the campus make decisions about capital projects? What is the review and approval process?
- What do I do if my department has an idea or a programmatic need for a project?

# 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

## Berkeley Capital Strategies

[Home](#) [Teams](#) [Services](#) [Resources](#) [Projects](#) [People](#)



The integrated teams of UC Berkeley Capital Strategies work together to bring planning, construction and development services to the campus.

# 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)

# Capital project evaluation scoresheet.

- 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?

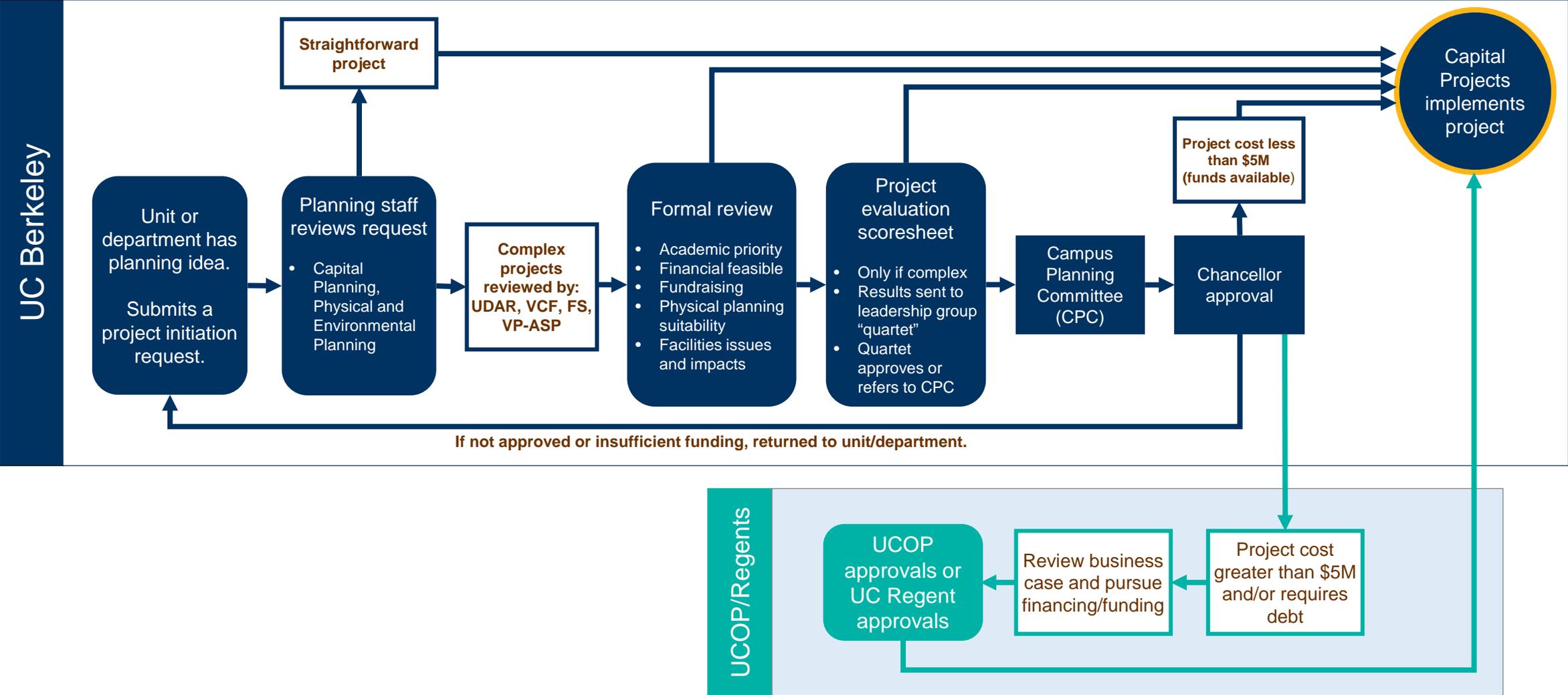


Capital Project Evaluation Form					
WEIGHT	PROPOSAL CRITERION	ASSESSORS	SCORE	SCORING RUBRIC	WEIGHTED SCORE
N/A	<b>REQUIRED PROJECT</b> - True/False * Mandated from campus, system, or state * Legal/Compliance Issue * Other Services/Programs depend on it	Quartet/ Quartet Staff		F: None are true T: One or More Items Are True	T - Legal
5	Criticality for sustaining academic excellence (core and/or breadth) & aligned with campus level or unit level priorities (e.g., interdisciplinary initiatives)	VPASP		1: Project has no bearing on academic excellence; it is not aligned with any campus priority 3: Academic excellence would be difficult to maintain or achieve without this project; aligns with one campus priority 5: Project is necessary to maintain or achieve academic excellence; aligns with more than one campus priority	#VALUE!
3	Potential for exploring bold new academic/research areas (e.g., consider competitive threats like start-up and retention)	VPASP		1: Project does not align with strategic academic planning objectives 3: Project will align with few academic planning objectives 5: Project aligns with many new academic planning objectives or advances future growth	#VALUE!
3	Criticality for student experience and access (including equity & inclusion, outreach)	VPASP		1: Project has no bearing on student experience 3: Project will enhance student experience, access, or outreach 5: Project is necessary to ensure positive student experience or to advance campus E&I	#VALUE!
3	Anticipated impact (Berkeley's reputation, # of students/programs, revenue, etc.)	VPASP		1: Project would have little impact on Berkeley (reputation, infrastructure, finances) 3: Project would enhance reputation, infrastructure, and/or finances for one unit 5: Project would enhance reputation, infrastructure, and/or finances for more than one unit	#VALUE!
3	Internal constituent support level	VPASP		1: Relatively little support expressed by members of unit 3: Strong support expressed within one unit 5: Strong support expressed across multiple units	0
4	Most appropriate use of the space, facility, land (is it the highest and best use for this area).	VPASP/ Capital Strategies/Pl anning		1: No studies on alternative uses of the space/facility/land have completed. Other projects might benefit more. 3: Few alternative use studies have been completed. The value of the project equates with other projects for this use. 5: All alternatives have been studied and this project is the highest and best use of this space/facility/land.	#VALUE!
3	Physical planning impact (design, land use, and environmental issues)	Capital Strategies/ Campus Architect		1: Project is a poor fit for the physical asset (e.g., conversion of historic space to labs, under-building on a central campus site) 3: Project is a good fit for the use of the physical asset 5: Project would improve the use of the physical asset – represents optimal approach to land use and facility use	#VALUE!
3	Alignment with facilities sustainability, including large campus facilities and systems	Capital Strategies/ Facilities		1: Project would result in increased operational and maintenance obligation 3: Project would maintain status quo for operational and maintenance obligation 5: Project would improve and/or decrease operational and maintenance obligation	#VALUE!
4	Affects health & safety, seismic, and legal issues; level of risk	Capital Strategies		1: Negatively affects health & safety, seismic, and legal issues; has a high level of risk 3: Has no effect at all on health & safety, seismic, or legal issues; has a low level of risk 5: Positively affects health & safety, seismic, and legal issues for the campus at large; has no level of risk	#VALUE!
3	Compliance/alignment with official university land use plans & agreements (LRDP, EIR, Climate Action Plan, Downtown Area Plan, Southside Plan)	Capital Strategies /PEP		1: Project requires substantial investment to address LRDP compliance and CEQA/entitlement and/or community issues 3: Project requires amendment to LRDP and presents manageable CEQA/entitlement or community issues 5: Project complies with LRDP and presents no CEQA/entitlement or community issues	#VALUE!
3	Revenue generation potential	VC Finance		1: No revenue generation potential 3: Some, but little, revenue generation potential 5: Huge revenue generation potential	#VALUE!
5	Financial underwriting and sustainability; Full disclosure of costs	VC Finance		1: Project/sponsor has little to no cash on hand and no funding plan/strategy; full costs unknown 3: Project/sponsor has enough cash on hand to cover 50% of total project expenses; majority of costs known 5: Project/sponsor has cash to cover 75% of expenses. Project/sponsor has a realistic funding plan/strategy with credible funding sources to cover financing gap. No campus financial support is required. All costs known.	#VALUE!
3	Fundraising Potential (based on prospect base, staffing, fundraising case and gifts pledged)	UDAR		1: Project has low fundraising potential 3: Project has moderate to good fundraising potential and/or significant funding already pledged 5: Project has very strong fundraising potential and/or full or nearly full funding already pledged	#VALUE!
<b>AVERAGE WEIGHTED SCORE:</b>					#VALUE!
Is there a negative impact that this project could have for campus?					

# UC Berkeley project initiation request.



# Approval process: From UC Berkeley to UC Regents (simplified)



# 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%,  $\frac{3}{4}$  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

Home » Projects » Project Report Summaries

## 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 connecting to campus through the campus 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

Project Type	FY15 #	FY15 \$	FY16 #	FY16 \$	FY17 #	FY17 \$
Major (>\$750k)	93	\$321M	94	\$110M	83	\$137M
Minor (\$35k-\$750k)	85	\$11M	96	\$13M	93	\$12M
Study & Other	53	\$51M	56	\$68M	40	\$21M
<b>Total</b>	<b>231</b>	<b>\$383M</b>	<b>246</b>	<b>\$191M</b>	<b>216</b>	<b>\$170M</b>

## **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!

Financial Literacy Training

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**Questions?**

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