

## B. HISTORIC FACILITIES NEEDS AND FUNDING

### ACQUISITIONS AND MAJOR PROJECTS, 1983-1995

Between 1983 and 1995 UCSF expended \$663 million (in nominal dollars) for more than 275 major capital projects and several acquisitions. Table 36 displays these expenditures by project category and site.

Some 53% of these funds, \$349 million, supported projects to house an academic or administrative program (the “program improvements” category); another 19%, or \$126 million, went to renovate or expand central campus utilities or building systems—the heating, cooling, electrical, plumbing and alarm systems (“infrastructure”) that must be in good working order to enable programs to be housed. About 23% or \$153 million went for Medical Center projects. The remaining 6% was spread across projects for campus life and amenities, parking and housing.

**TABLE 36: HISTORIC EXPENDITURES AT EXISTING SITES, 1983-1995 (\$1,000s)**

	<u>Parnassus Heights</u>	<u>Mount Zion</u>	<u>SFGH</u>	<u>Laurel Heights</u>	<u>Mission Center</u>	<u>Other /b/</u>	<u>TOTAL</u>	<u>% of Total</u>
Program Space /a/	\$177,300	\$57,800	\$26,400	\$65,500	\$17,500	\$4,500	\$349,000	52%
Infrastructure	\$117,000			\$7,000	\$2,000		\$126,000	19%
Housing	\$17,000						\$17,000	3%
Parking and Circulation	\$4,000						\$4,000	1%
Amenities and Services	\$14,000						\$14,000	2%
Medical Center	\$79,900	\$63,100		\$800	\$5,200	\$4,000	\$153,000	23%
<b>TOTAL</b>	<b>\$409,200</b>	<b>\$120,900</b>	<b>\$26,400</b>	<b>\$73,300</b>	<b>\$24,700</b>	<b>\$8,500</b>	<b>\$663,000</b>	<b>100%</b>
Percent of Total	62%	18%	4%	11%	4%	1%	100%	

/a/ Medical Center expenditures for program space and infrastructure projects are included under “Medical Center” (except for infrastructure projects jointly funded between the Campus and the Medical Center).

/b/ Hunters Point, Oyster Point, Harrison Street and 515 Spruce Street.

## **EXPENDITURES BY PROJECT CATEGORY**

**In the past 12 years, infrastructure projects were funded substantially by the State Capital Improvement Program (CIP), augmented by UC and campus funds.**

In the past 12 years, infrastructure projects were funded substantially by the State Capital Improvement Program (CIP),<sup>5</sup> augmented by UC and campus funds. A major exception was the new Parnassus Central Utility Plant, a \$61 million project now under construction, which was paid for via external financing, repaid with savings from avoided energy costs. Program improvements were funded by a large number of different fund sources; however, external financing (37%) and campus working capital (32%) were the primary sources<sup>6</sup>. Within this category were several large acquisitions, considered to be “program” for purposes of this analysis: Laurel Heights (\$55 million), Mission Center (\$14 million) and Turk Street student housing (\$3 million). The UCSF/Mount Zion research building now under construction (\$57 million) was also financed using external debt. Medical Center projects were covered by Hospital funds. Parking and housing projects were paid for principally by income from fees and rental payments, respectively.

The historic pattern of funding for UCSF facilities needs may continue into the future, or a different pattern may emerge. Recent state CIP priorities have been oriented toward safety upgrades and infrastructure projects; these priorities now include bringing UC’s campus buildings into conformance with current seismic codes following several terrible earthquakes in Southern and Northern California.

Owing to limited overall funding, coupled with immediate replacement costs for seismically-deficient buildings, a backlog of other UC facilities needs has built up. A 1995 capital asset management study conducted by the UC Office of the President found that to address significant facilities renewal needs in all nine UC campuses through the year 2000 would require between \$700 and \$800 million per year. Yet under current projections, based in part on the state’s recent dip in economic strength, CIP funding would be reduced rather than increased, to about \$150 million/year. If these reduced funding projections hold true, UCSF would be forced to seek unrestricted gifts or use scarce campus funds.

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Program needs are expected to continue to be funded by the same wide array of funding sources. Certain of these, principally working capital are somewhat dependent on federal indirect cost reimbursement policies for federally-funded research projects. These are now capped. If they remain capped or other policies are implemented that tighten the flow of indirect cost recovery funds to the campus, incremental sponsored research may not translate into a reliable source of funding for new facilities. Additionally, funds to the campus

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<sup>5</sup> For a more complete discussion of traditional funding sources, see the boxed text, later in this chapter.

<sup>6</sup> External financing, or debt, is a vehicle for funding, rather than a discrete fund source; funds used to repay debt may include campus working capital, gifts, grants, patent income and other sources. The source of the information for this table, the Project Planning Guide, identifies projects at their initial phase of work; the PPG does not reflect the eventual repayment sources, which may be paid out over many years and from a variety of sources.

resulting from the delivery of clinical services may be affected by the changes now occurring in managed care.

Use of additional external financing is likely to be limited until the building acquisition loans of the past decade are repaid. In order to assure a measured pace of implementation, gifts, grants and new sources of income such as patents will be sought, to help compensate for some of the loss in other sources.

## **MORE ABOUT TRADITIONAL FUNDING SOURCES**

Capital projects are traditionally funded either directly from allocations by the state, from campus working capital or, increasingly, from debt financing supported by specific revenues. These major sources of funding are discussed, followed by a review of the mechanisms for employing funds to repay debt.

### **STATE FUNDS**

The Capital Improvement Program (CIP) has been UCSF's traditional source of funds for academic, administrative and infrastructure construction projects. After approval by The Regents, the funding request moves to the Governor and then, before the Legislature.

Funding sources for the state CIP have changed since the early 1980s, when the primary source of funds was state appropriations from Tideland Oil revenues appropriated through the Capital Outlay Fund for Public Higher Education (COFHE). Now the mix of sources for the CIP is more complex. State funding has come to rely on two sources: General obligation (GO) bonds and revenue bonds. GO bonds go before California voters at general elections every two years. However, in recent elections California voters have turned down GO bond measures. The state has authority to issue revenue bonds as an additional source of funds, but recently has tended to do this mainly for urgent needs such as life and safety improvements. In either case these bonds are repaid by specified state revenues.

### **UNIVERSITY OF CALIFORNIA FUNDS**

The University of California is a separate constitutionally created entity empowered to issue debt secured by its own assets and income. Income from these assets may be used for debt-financing or as a source of direct funding for facilities projects. Use of UC funds may involve direct payments from either income or reserves (sometimes referred to as "equity") or may use debt instruments, underwritten with a particular funding source. The mechanisms used for debt financing are subject to detailed regulations and approvals.

### **UCSF WORKING CAPITAL**

Campus working capital funds include UCSF's portion of indirect cost recovery from federally sponsored research contracts and grants as well as income from a variety of sources, such as professional school income, patents, parking funds and unrestricted gifts.

### **HOSPITAL FUNDS**

Hospital reserves have long played an important role in funding improvements at the two UCSF-owned hospitals at Moffitt/Long and UCSF/Mount Zion. The Medical Center is permitted to sell bonds repaid through its reserves, which are replenished from a number of sources.

### **MAJOR GIFTS**

UCSF has been successful in raising private funds; however, most of the funds have gone for teaching, research and scholarship rather than for bricks and mortar. Nonetheless, major gifts have helped to fund the UCSF Library, Vision Center and lab projects.

### **MECHANISMS FOR FINANCING CONSTRUCTION PROJECTS**

If funds to construct a capital improvement projects are not available to UCSF when needed, the project may be debt-financed using one of several possible mechanisms available to UCSF, each of which is governed by rules concerning what fund sources may be used to repay the debt.

Tax-exempt University bonds, issued by the Treasurer with The Regents' approval, are used for major capital construction. Most major capital financing with UC uses pool bond financing, where a "pool" of projects from various UC campuses is offered collectively to the bond market. The source of repayment of University bonds may be any of those funds above.

No direct state funding is available for auxiliary functions such as parking and housing. Housing bonds are used solely to develop student housing; these are long-term bonds paid back from tenant income. Parking bonds are discretionary and funds may be used for projects other than facilities, such as subsidizing the campus shuttle bus system. Bank loans structured by the UC Treasurer serve as a major financing source for UC campuses and may be in the form of bridge loans, when interim financing is required, or in other form such as commercial notes, when a project is not eligible for pool bond financing or not in the queue for financing from another source or awaiting pool financing. Bank loans require a specific revenue source for repayment.