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June 8, 2016

CHANCELLORS

RE: State Capital Outlay Request 2017-18

This letter constitutes the call for projects to be considered for the University's *2017-18 State Capital Outlay Request*. Under the provisions of sections 92493 through 92496 of the Education Code, as added by Chapter 50, Statutes of 2013 (Assembly Bill 94) and amended by Chapter 22, Statutes of 2015 (Senate Bill 81), the University of California is authorized to use its State General Fund appropriations as a repayment source for University-issued revenue bonds. The Education Code stipulates that no more than 15 percent of UC's annual State General Fund allocation can be used for debt service for capital expenditures, pay-as-you-go capital outlay projects, and formerly approved General Obligation bond and State Public Works Board rental payments. Twenty projects, including the *Merced State 2020 Project*, have been approved and financed under this process. These State projects are referred to as General Funds Financed (GFF) projects.

A New Funding Model - Three-Year Approach for Deferred Maintenance and Campus Projects

There continues to be a significant need for capital project funding, but the debt service for the GFF projects competes with other demands for State General Funds. While there has been general consensus that the prioritization and submittal of GFF projects should be managed systemwide, there are also limitations on the level of debt the University can incur. The University is implementing a funding model that targets $200 million per year over the three years, for a total of $600 million, towards two major capital components: (1) deferred maintenance, and (2) campus projects that address seismic/life safety issues or enrollment growth. These priorities were examined in the context that campuses – and the system – benefit from a multi-year approach to budgeting and project planning. The approach is summarized in the table below.

	Year 1 2017-18	**Year 2 2018-19**	**Year 3 2019-20**
Deferred Maintenance	$ 50,000,000	$ 50,000,000	$ 50,000,000
Capital Projects (Seismic/Life Safety, Enrollment)	$150,000,000	$150,000,000	$150,000,000
Total State General Funds Financed	**$200,000,000**	**$200,000,000**	**$200,000,000**

Deferred Maintenance - $150 Million over Three Years

Funding for capital renewal and deferred maintenance has not been stable or predictable since the mid-1990s. In the long term, failure to invest adequately in capital renewal and ongoing maintenance presents growing risks to the University. Given the age and current condition of University facilities and infrastructure, there is a critical need at the campus and system levels to make strategic, data-driven capital decisions based upon accurate information that identifies, prioritizes, and quantifies deferred maintenance needs and their associated risk. To this end, the University is implementing a new comprehensive Integrated Capital Asset Management Program (ICAMP). The new ICAMP system will perform initial real-time condition assessments for all University-related buildings, and categorize and track functionality and criticality of infrastructure assets. Information will be maintained in ICAMP's state-of-the-art software, and will provide strategic, comprehensive and reliable information to you and your executive leadership as well as your budget, capital planning, and facilities staff. This information will be crucial for supporting the University's advocacy efforts for deferred maintenance funding.

The Governor and Legislature recognize that deferred maintenance is a serious issue. In 2015-16, the State designated $120 million in one-time General Fund deferred maintenance funding, with $25 million provided to the University. The Governor's proposed 2016-17 deferred maintenance proposal has proposed $500 million in one-time funding, with the University's proposed share increased to $35 million. This funding, however, is not enough to address UC's sizable backlog of deferred maintenance. Armed with information from ICAMP that substantiates the risk that deferred maintenance represents to the system, we will intensify advocacy efforts for additional State funding of deferred maintenance. In the meanwhile, in acknowledgment of the significant need to address deferred maintenance, the Office of the President is proposing to match the 2017-18 State appropriation for deferred maintenance with a proposed 2017-18 GFF program, for up to $50 million in matching funds. Taken together, the one-time State funds and the GFF funds could deliver a substantial amount of funding to the campuses for condition assessments and deferred maintenance for State-supportable space.

The University will submit a Systemwide Project Planning Guide (PPG) for the 2017-18 deferred maintenance program. The PPG will expand on the lists of projects submitted for the 2015-16 and 2016-17 State Budget Acts. Supporting information for the PPG will be requested in a separate communication, but will be similar to requests that supported the 2015-16 and 2016-17 lists. The PPG will also include a targeted budget for ICAMP to fund the initial facilities and infrastructure assessments for State-supportable space.

Capital Projects - $450 Million over Three Years

With the estimated available funding of $450 million for capital projects that address the priorities of seismic/life-safety and enrollment growth, the University is implementing a model that sets aside a per-campus $50 million target for nine campuses, exclusive of the Merced campus, for use over the three years. The funding is limited to nine campuses because the *Merced 2020 Project*, funded in 2016-17, will provide for that campus's needs during this period. The University will also identify capital GFF projects for Agriculture and Natural Resources.

Given that $50 million is insufficient to address any given campus's capital priorities, campuses are faced with balancing the range of competing capital demands. This includes enrollment growth that has left facility shortages at all campuses, as well as seismic and life safety issues that are critical issues to both campuses and Regents. Campuses are in the best position to weigh their specific demands and set priorities, recognizing that both Regental concerns and GFF approval by the Legislature is on a project-by-project basis that aligns with State expectations for effective use of public funds.

To implement this three-year funding model, we have planned for a two-step submittal for the campus capital projects:

Step 1. In order to balance the funding of campus projects over the three years, I am requesting that each campus submit a proposal by June 20, 2016 for the utilization of its $50 million for capital projects over the three years of the program. In that proposal, please provide a preliminary estimate of funding by amount and by phase (preliminary plans, working drawings, construction, and equipment) and by year (2017-18, 2018-19, and 2019-20). It is suggested that the campus present a ranked list of several scenarios with each scenario totaling $50 million. *State Capital Outlay Submittal Process Step 1 Template*, attached to this letter, provides for a form for this use.

These submittals will be evaluated with a goal of ensuring that both campus and system priorities and financing needs are met. We will provide the campuses with a final list of the University's *2017-18 State Capital Outlay Request* by June 30, 2016.

Step 2. Consistent with the provisions of the Education Code, the University must submit the State capital outlay project funding requests for the 2017-18 budget to the Department of Finance and the Joint Legislative Budget Committee on or before September 1, 2016. To meet that deadline, I am requesting that each campus submit draft 2017-18 PPGs to OP Capital Planning by July 22, 2016. You may contact Director Dana Santa Cruz directly during preparation of the proposal(s) to identify and resolve issues as early in the process as possible, and her staff will work closely with your staff to assist in developing and finalizing the PPGs. The final campus-signed PPGs for the *2017-18 State Capital Outlay Request* should be transmitted to OP Capital Planning by August 23, 2016; my office will transmit them to the State on or before September 1, 2016.

As indicated earlier, we will be sending a separate communication with instructions for submitting the lists in support of the deferred maintenance funding request.

Related Regental and State Approvals

In November 2016, the University will submit the annual list of proposed state capital outlay to the Regents for budget approval (*2017-18 Budget for State Capital Improvements*). In the spring 2017, the University will return to the Regents for approval of external financing with the primary repayment source from its State General Fund appropriations. The approval of external financing constitutes financing approval of the State appropriations, but neither constitutes nor is in lieu of specific project approvals such as design following action pursuant to the California Environmental Quality Act.

I look forward to our discussion of this program funding approach and, as always, I welcome your thoughts and ideas.

Sincerely,

Nathan Brostrom
Executive Vice President – Chief Financial Officer

Attachment –State Capital Outlay Submittal Process Step 1 Template

cc: President Napolitano
Associate Vice President Kim
Associate Vice President Obley
Interim Executive Director Sato
Director Alcocer
Director Hornbeck
Director Santa Cruz
Director Yin
Administrative Analyst Olmos
Vice Chancellors for Planning and Budget
OP/Campus Capital Leadership Forum
Campus Capital Planning Directors
Campus Architects

ATTACHMENT

2017-18 State Capital Outlay Submittals - Step 1 Template

		Year 1 2017-18		Year 2 2018-19		Year 3 2019-20	Total GFF $$ Costs	Non-State Funds				Total Project Costs
Ranked **Alternatives**	Project Name	Phase (s)	GFF $$	Phase (s)	GFF $$	Phase (s) GFF $$	(max $50,000,000)	Project Name	Phase (s)	Other fund sources	$$	
Proposal 1							$ -				$ -	$ -
							$ -				$ -	$ -
	TOTAL		$ -		$ -		$ -					
Proposal 2							$ -				$ -	$ -
	TOTAL		$ -		$ -		$ -					
Proposal 3					$ -	$ -	$ -				$ -	$ -
	TOTAL						$ -					

Step 1 - Example (Illustrative only)

		Year 1 2017-18		Year 2 2018-19		Year 3 2019-20	Total GFF $$ Costs	Non-State Funds				Total Project Costs
Ranked **Alternatives**	Project Name	Phase (s)	GFF $$	Phase (s)	GFF $$	Phase (s) GFF $$	(max $50,000,000)	Project Name	Phase (s)	Other fund sources	$$	
Proposal 1 *(two projects, one project utilizing campus funds)*	*Project 1A*	*P*	*$ 600,000*	*W*	*$ 700,000*	*C* ##########	*$ 29,200,000*	*Project 1A*	*C*	*CF*	##########	**$ 44,200,000**
	Project 1B	*P* *W*	*$ 300,000* *$ 500,000*	*C*	#########		*$ 20,800,000*					**$ 20,800,000**
	TOTAL		$ 1,400,000		#########	##########	**$ 50,000,000**					
Proposal 2 *(one project, funding over three years)*	*Project 2A*	*P*	*$ 2,000,000*	*W*	*$ 4,000,000*	*C* ##########	*$ 50,000,000*					**$ 50,000,000**
	TOTAL		$ 2,000,000		$ 4,000,000	##########	**$ 50,000,000**					
Proposal 3 *(one project, campus pre-funded P & W with non-State funds and E with future non-State financing)*	*Project 3A*	*C*	##########		*$ -*	*$ -*	*$ 50,000,000*	*Project 3A*	*E*	*EF*	##########	**$ 65,000,000**
	TOTAL						**$ 50,000,000**					