Fund Sources to be Reviewed

- State Funding
- Opportunity Funds
- Garamendi
- Auxiliaries (User Fees)
- Campus Based Fees
- Donor/Gift Funds
Current Campus Debt Profile

- Current campus debt is approximately $700 million, increasing to $1 billion in next two years
- State General Obligation Bonds and Refinanced Lease Revenue Bonds (22%)
- Approximately 47% of debt is associated with the student housing program
- Indirect Cost Recovery 16%; Student Services 9%; Parking 5%; Energy Program 1%
- Current debt is approximately $49 million annually and going to $70 million in next two years
State Funds

- Targets are provided by UCOP to campus
- Projects included in the State Five Year Capital Program
- Funding requires approval of bond financing
  - General Obligation (voter approval – last G.O. Bond approval was November, 2006)
  - Lease Revenue (budget process) – No longer
State Funds Con’t

- **CHANGE** - Funding for utility and maintenance costs associated with new space is now a campus obligation, not a separate allocation as in the past
  - Approximately $10.25 per MGSF – Needs to be funded from campus workload allocation when new eligible space brought on-line
State Funds Con’t

- Typical State eligible projects:
  - Instructional buildings for enrollment growth
  - Life Safety
  - Renewal and Renovation
  - Infrastructure

- Life safety projects tend to have highest priority followed by renewal and renovation
State Funds – AB 94

- Amends the California Education Code, including expenses related to capital projects
- Transferred General Obligation and Lease Revenue Bond debt payments to UC.
- Concurrently increased the General Fund support appropriation by an amount equal to debt obligations.
AAB 94 Con’t

- Allows University to pledge up to 15% of the General Fund monies, less the amount required to fund GO and LRB debt obligations, toward debt payment for capital projects.

- If UC reduces debt obligation by defeasing or retiring debt the accumulated savings shall be pledged to the UCRS unfunded liability.
AB 94 Con’t

- Net effect is that an “unknown amount” of funding may be available for the UC capital program
- UCSB has benefited with funding for BioEngineering, Infrastructure Phase 1B, and likely the Campbell Hall Replacement Building in 2015-16
- Lots of smoke and mirrors in this one and campuses struggling to understand the process being used by UCOP
Opportunity Fund

- Component of Federal ICR Funds
  - First 19.9% is known as “Off-the-Top” and cannot be used as a source of debt payment.
  - The remaining 80.1% is split as follows:
    - 55% is part of University General Funds
    - 45% is allocated as Opportunity Fund
Opportunity Funds Con’t

- Essentially 36% of Federal ICR becomes “Opportunity Funds”
- These funds can be used for operating and capital expenses, as well as debt
- The pledge of Opportunity Funds for debt is subject to two tests:
Opportunity Funds Con’t

- **Pledge Test**
  - The ratio of debt pledged cannot exceed 65% of the campus allocation

- **Payment Test**
  - The ratio of debt service paid cannot exceed 33% of the campus allocation

- The campus must be in compliance with both tests or seek a waiver from UCOP

- Additional debt capacity results from debt being paid off and increases in grant activity
New space funded from this source needs to take into account ongoing utility and maintenance costs.

Typical uses of this fund:
- Allocations to Research Control Points
- Recruitment Expenses
- Minor Capital Projects (equity)
- Surge Space
- Capital Project Cost Overruns
Garamendi Projects

☐ Funding for research projects using Federal ICR

☐ Requires increase in indirect cost recovery sufficient to cover both debt and OMP (maintenance/utility) costs of the project

☐ Also part of pledge and payment tests as Opportunity Funds except test includes both debt and OMP costs.
Garamendi Con’t

- Program started in 1990 and UCSB has 5 Garamendi Projects:
  - KITP
  - MRL (Utilities & Maintenance Only)
  - MSRB
  - CNSI
  - Bioengineering

- Currently 23% of federal ICR going towards Garamendi projects.
### Garamendi Example (New Project)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>Project Cost</td>
<td>$50,000,000</td>
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<tr>
<td>MGSF</td>
<td>50,000</td>
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<tr>
<td>Annual Debt</td>
<td>3,069,577</td>
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<tr>
<td>Annual OMP</td>
<td>512,500</td>
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<tr>
<td>Total Cost</td>
<td>3,582,077</td>
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<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>Required Increases in Grants</td>
<td>17,910,386</td>
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<tr>
<td>Estimated Net New ICR</td>
<td>3,582,077</td>
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</table>
Auxiliaries

- Self-supporting enterprises, such as:
  - Student Housing
  - Parking
  - Bookstores

- Can pledge enterprise revenues as source of repayment for debt

- Often contribute equity to projects from reserves
Auxiliaries Con’t

- Need to demonstrate sufficient net revenue to cover:
  - New program related costs
  - OMP (Maintenance & Utilities)
  - Debt payment
  - Required reserve (25% of debt payment)

- Projects normally require increases in user fees
Campus Based Fees

- Requires student approval via vote
- Fee revenue must be sufficient to cover:
  - Debt service
  - Debt coverage requirements (25% of debt)
  - Operations & maintenance of space
  - Program Support, if included on ballot
  - Required financial aid
- Fee level based on above considerations and enrollment projections
<table>
<thead>
<tr>
<th>Campus Based Fees Con’t</th>
</tr>
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<tbody>
<tr>
<td><strong>Example:</strong></td>
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<tr>
<td><strong>Project Cost</strong></td>
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<tr>
<td><strong>MGSF</strong></td>
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<tr>
<td><strong>Students Paying Fee</strong></td>
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## Campus Based Fees Con’t

<table>
<thead>
<tr>
<th>Estimated Cost</th>
<th>Annual</th>
<th>Per Student</th>
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<tbody>
<tr>
<td>Debt</td>
<td>1,534,789</td>
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<tr>
<td>OMP</td>
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<td>Coverage Factor</td>
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<td>Financial Aid</td>
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<td>Total</td>
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<td>145.00</td>
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Per Quarter F,W,S 48.33
Donor/Gift Funds

- Cash is supposed to be the primary source used for donor funded projects
- Two types of financing are used for help support gift funded projects:
  - Standby Financing - associated with pledges received
  - Interim Financing - associated with pledges yet to be raised
Donor/Gift Funds Con’t

☐ Standby Financing

- Used to bridge the timing difference between project expenditures and receipt of gift funds
- OP requires 50% of donor funds in cash or pledges
- Generally will not exceed 5 to 7 years
- Requires back-up source for repayment; but doesn’t count against debt capacity
Donor/Gift Funds Con’t

- Interim Financing
  - Used to temporarily replace funding yet to be raised for project
  - Duration of 5 to 7 years for financing
  - Requires back-up source for repayment
  - Counted against debt capacity
  - If gift funds not raised campus can request long-term financing using back-up source - this isn’t something campus wants to do
Third Party

- Typically housing projects – developer responsible for financing, construction, sale or rental of housing
- Campus has not been successful on third party projects
- Tried both for-sale and for-rent projects and for a variety of reasons have not been able to come to agreements with third party
Planning Considerations

- Impact of projects on user fees
- Required debt ratios & debt capacity
- Uncertainty with state funding
- Ongoing utility and maintenance funding
- Need for a business case analysis for each capital project