

Construction Financing Examples

Where does the initial money come from?
How are loans paid back?

Methodology

All significant construction is approved in advance by Regents

Searched for Regental references to Berkeley campus* construction projects completed in last 10 years.

I found “complete” information on 9, incomplete information on 2.**

* I did not examine off-campus construction projects.

** Numbers depend on how you count.

Summary

- Many sources of construction funds
Gifts, State, Federal, Loans
- Multi-phase strategies
- Usually commit research overhead for repayment
- About half of projects have financial modifications
Source of funds, costs
- No evidence for direct use of student fees

Seismic Safety Corrections, FEMA Program Phase I

“eliminate serious seismic safety deficiencies and correct accessibility and life safety deficiencies in four Berkeley campus buildings, Barrows Hall, Hildebrand Hall, Latimer Hall, and Silver Laboratory”

Barrows Proposal to Regents (I)

NAME	-	July 15, 1999	FINANCE
EXTERNAL FINANCING FOR SEISMIC SAFETY CORRECTIONS, FEMA PROGRAM PHASE 1, BERKELEY CAMPUS			
The President recommended that, subject to amendment of the Budget for Capital Improvements and the Capital Improvement Program to include this project:			
A.	Funding for Seismic Safety Corrections, FEMA Program Phase 1, Berkeley campus, be approved as follows:		
	<u>Fund Source</u>	<u>Amount</u>	
	Federal Emergency Management Agency (FEMA)	\$41,960,000	
	External financing	32,000,000	
	State	13,987,000	
	Campus funds	4,153,000	
	Total	\$92,100,000	
B.	The Treasurer be authorized to obtain long-term external financing not to exceed \$32 million for Seismic Safety Corrections, FEMA Program Phase 1, Berkeley campus, subject to the following conditions:		
(1)	Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.		
(2)	Repayment of the debt shall be from the Berkeley campus' share of the University Opportunity Fund.		
(3)	The general credit of The Regents shall not be pledged.		
C.	The Treasurer be authorized to obtain interim external financing not to exceed \$10 million to finance, if necessary, cash flow needs in connection with the FEMA Hazard Mitigation Grant Program for seismic correction costs associated with this project, subject to the following conditions:		
(1)	Interest on any advance shall be paid from income distributed from the Russell Springer Memorial Foundation Fund to the Berkeley campus.		
(2)	The general credit of The Regents shall not be pledged.		
(3)	It be recognized that should significant disallowance of expenses occur in the post-audit review of this seismic project, the campus would, if necessary, return to The Regents to seek the appropriate approval for long-term external financing of some or all of those costs.		
D.	The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is exempt from federal income taxation under existing law.		
E.	The Officers of The Regents be authorized to execute all documents necessary in connection with the above.		

The Committee was informed that the project will eliminate serious seismic safety deficiencies and correct accessibility and life safety deficiencies in four Berkeley campus buildings: Barrows Hall, Hildebrand Hall, Latimer Hall, and Silver Laboratory, which total approximately 550,000 gross square feet and 337,000 assignable square feet. Three of these buildings house instruction and research programs and one, Silver Laboratory, houses an organized research unit. They were identified in the campus' SAFER seismic action plan and are among its highest priorities for seismic safety improvements.

The Berkeley campus has received a grant under the Hazard Mitigation Grant Program of the Federal Emergency Management Administration for this project. FEMA will fund 75 percent (up to a \$41,960,000 maximum) of certain structural and related costs and requires the remaining 25 percent to be matched by non-federal funds. State funding has been proposed for the matching share, \$13,987,000. The Berkeley campus and external financing will provide the remaining funds necessary to complete the project.

Corrective work in these four buildings will improve their resistance to seismic forces and provide substantial life-safety protection to their occupants during a large earthquake. All four buildings are located close to the seismically active Hayward fault, which crosses the eastern edge of the central Berkeley campus. Recent studies have shown that these buildings could sustain major damage or collapse in a large earthquake and that each poses a high safety risk to the occupants. Hildebrand Hall is rated seismically "Very Poor," while Latimer Hall, Barrows Hall, and Silver Laboratory are rated seismically "Poor."

Each individual building will receive seismic strengthening in accordance with its specific structural needs. Upon completion of the work, each building will achieve a seismic rating of "Good." Hazardous material abatement and mandatory correction of fire and life safety and accessibility deficiencies will be completed in each building as part of the project. Each building will require relocation of some or all of its occupants in a manner that ensures the integrity of the academic programs. The campus will use several strategies to accommodate these programs during construction, including placing temporary structures on the campus, doubling up staff in existing facilities, and adapting existing space in which to relocate building occupants. Wherever possible and cost-effective, unoccupied space used for relocation will be permanent for future occupants.

Because this project includes the very specific and unique design elements associated with seismic retrofit of four buildings, no comparable costs from other projects are available.

The project is estimated to cost \$88.9 million, plus financing costs of \$12.2 million, for a total capitalized project cost of \$92.1 million. The project will be funded from a combination of FEMA funds (\$41,960,000), State funds (\$13,987,000), external financing (\$32 million), and campus funds (\$4,153,000).

Based on a debt of \$32 million amortized over 27 years at 6.5 percent interest, the average annual debt service is estimated to be \$2,545,000. Repayment of the debt will be from the Berkeley campus' share of the University Opportunity Fund. Opportunity Funds are a portion of the indirect costs recovered from federal contracts and grants. Thirty-four percent of the campus' estimated Opportunity funds generated in 2002-03 (the first full year of operation) will be pledged for debt. Both Opportunity Fund pledge and payment levels fall within prescribed limits.

The FEMA program operates on a reimbursement basis following expenditure by the campus and billing to the Office of Emergency Services (OES), the State agency that disburses FEMA's HEMGP funds. A short-term \$10 million financing requirement was developed using estimates of reimbursement timing. These estimates were based upon discussions with OES staff and are consistent with UCLA's experience with FEMA project reimbursement timing.

The campus has identified the Russell Springer Memorial Foundation Fund (Springer Fund) as the restricted endowment whose income will be used to pay debt service on the short-term loan. The Springer Fund is a Fund Functioning as Endowment which is invested in the General Endowment pool and had a market value on May 31, 1999 of over \$65.3 million. Investment income on the Springer Fund in the 1997-98 fiscal year was \$1.87 million. Under the new endowment spending policy, the payout to be distributed for fiscal year ending June 30, 1999 is estimated to be approximately \$1.9 million. General Counsel review of the terms of the Springer endowment and concluded that the campus may use the income as proposed.

Should some claims for FEMA reimbursements be disallowed, repayment of any of the State funds drawn down will be paid from unrestricted funds available to the Berkeley campus. Depending on the magnitude of any disallowances, the campus may need to return to The Regents to seek long-term permanent financing.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

Barrows Proposal to Regents (II)

Funding for Seismic Safety Corrections, FEMA Program Phase 1, Berkeley campus, be approved as follows:

<u>Fund Source</u>	<u>Amount</u>
Federal Emergency Management Agency (FEMA)	\$41,960,000
External financing	32,000,000
State	13,987,000
Campus funds	<u>4,153,000</u>
Total	\$92,100,000

Barrows Proposal to Regents (III)

The Treasurer be authorized to obtain long-term external financing not to exceed \$32 million for Seismic Safety Corrections, FEMA Program Phase 1, Berkeley campus, subject to the following conditions:

- (1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
- (2) Repayment of the debt shall be from the Berkeley campus' share of the University Opportunity Fund.
- (3) The general credit of The Regents shall not be pledged.

University Opportunity Fund?

Research grants include "indirect cost reimbursement"

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University General Funds and is used, along with State General Funds, to help fund the University's basic budget. The remaining 45% is the source of the University Opportunity Fund. Approximately 6% of these funds are used to support systemwide activities such as the Energy Institute and the Education Abroad Program, as well as systemwide administrative functions; the remainder is returned to campuses on the basis of how it was generated.

Opportunity Fund uses

Regents Policy 5102: POLICY ON USE OF THE UNIVERSITY OPPORTUNITY FUND

Approved November 18, 1977

Updated September 22, 2005

1. That beginning in 1979-80, the University Opportunity Fund be used to enhance the quality of University programs through projects which continue to meet the following objectives:

- a. extend research opportunities;
- b. encourage instructional innovation and improvement;
- c. promote sound administrative planning; and
- d. meet mandated and other recognized University responsibilities

Barrows Proposal to Regents (IV)

Based on a debt of \$32 million amortized over 27 years at 6.5 percent interest, the average annual debt service is estimated to be \$2,545,000. Repayment of the debt will be from the Berkeley campus' share of the University Opportunity Fund. Opportunity Funds are a portion of the indirect costs recovered from federal contracts and grants. Thirty-four percent of the campus' estimated Opportunity funds generated in 2002-03 (the first full year of operation) will be pledged for debt. Both Opportunity Fund pledge and payment levels fall within prescribed limits.

The FEMA program operates on a reimbursement basis following expenditure by the campus and billing to the Office of Emergency Services (OES), the State agency that disburses FEMA's HMGP funds. A short-term \$10 million financing requirement was developed using estimates of reimbursement timing. These estimates were based upon discussion with OES staff and are consistent with UCLA's experience with FEMA project reimbursements timing.

Barrows Proposal to Regents (V)

The campus has identified the Russell Springer Memorial Foundation Fund (Springer Fund) as the unrestricted endowment whose income will be used to pay debt service on the short-term loan. The Springer Fund is a Fund Functioning as Endowment which is invested in the General Endowment pool and had a market value on May 31, 1999 of over \$65.3 million. Investment income on the Springer Fund in the 1997-98 fiscal year was \$1.87 million. Under the new endowment spending policy, the payout to be distributed for fiscal year ending June 30, 1999 is estimated to be approximately \$1.9 million. General Counsel reviewed the terms of the Springer endowment and concluded that the campus may use the income as proposed.

Fund Functioning as Endowment?

B. FUNDS FUNCTIONING AS ENDOWMENT

Funds in this subgroup are created by a gift or bequest where a donor does not explicitly instruct that it be used as either a current gift or an endowment. At its own discretion, the University may create a fund functioning as endowment. These funds are invested as if they were a true endowment; however, unlike a true endowment, the institution may authorize the expenditure of principal. The main source of funds functioning as endowment is private gifts and bequests. Other examples of such funds include indirect cost recovery on Federal and private agency contracts. These funds are invested as endowments; subsequent allocations for current use are made from principal.

Half-way between real endowment (principal can't be touched) and just plain money, the interest is being used while the principle waits to be used for some other purpose.

In this case, we're doing to somebody else what FEMA did to us....

(New) Stanley Hall (I)

- A. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the 2001-02 Budget for Capital Improvements and the 2001-04 Capital Improvement Program be amended to include:

Berkeley: Stanley Quantitative Biosciences and Bioengineering Facility – preliminary plans, working drawings, construction, and equipment – \$143,296,000 total project cost, to be funded from gifts (\$93,421,000), the State through the California Institutes for Science and Innovation (\$34,875,000), and external financing using the Garamendi funding mechanism (\$15,000,000).

Garamendi Mechanism?

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities, the related infrastructure, and financing of these projects. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as previously described. Of the 23 projects approved by the Legislature to be financed in this manner, 11 have been completed, 1 received gift funding and was removed from the program, and 11 are in the planning and construction stages. Among those in the planning stage are 7 new projects that are part of the California Institutes for Science and Innovation program.

(New) Stanley Hall (II)

- C. The Committee on Finance recommend that the Treasurer be authorized to obtain external financing not to exceed \$15,000,000 to finance the Stanley Quantitative Biosciences and Bioengineering Facility project, subject to the following conditions:

- (1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
- (2) Repayment of the debt shall be from the Berkeley campus' share of the University Opportunity Fund.

The Treasurer be authorized to obtain stand-by financing not to exceed \$22,675,000, and interim financing not to exceed \$70,746,000, for a total of \$93,421,000, prior to awarding a construction contract for any gift funds not received by that time and subject to the following conditions:

- (1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
- (2) Repayment of any financing shall be from gift funds and, in the event such gift funds are insufficient, from the Berkeley campus' share of the University Opportunity Fund.

(New) Stanley Hall (III)

The gift campaign for the project is under way, and as of February 1, 2002 the status is as follows:

Gifts Received	\$ 0
Pledges Received	22,675,000
Planned Gifts Pledged	50,000,000
Gifts To Be Raised	<u>20,746,000</u>
Total:	\$93,421,000

The University of California, Berkeley Foundation is the irrevocable beneficiary of \$50 million to be distributed upon the termination of a charitable remainder unitrust. The anonymous donor designated this gift to be used for the construction of new facilities for the biological sciences. The campus has designated the gift for this project.

(New) Stanley Hall (IV)

Approval of standby financing of \$22,675,000 and interim financing of \$70,746,000 is requested in order to meet The Regents' funds-on-hand requirement. To the extent gifts are received prior to completion of the project, the amount of the standby and interim financing will be reduced, and outstanding balances will be prepaid. In the event the collection of gifts is insufficient, the campus has pledged the Berkeley campus Opportunity Funds as a source of repayment. Should the campus be unable to raise the additional gifts, the \$70,746,000 of interim financing may have to be repaid over 27 years at 6.125 percent for potential annual debt service of \$5,422,000.

Should it prove necessary, the campus will return to The Regents at the end of construction to request the conversion of any remaining portion of the interim financing to external financing. The campus has sufficient capacity to pledge the Berkeley campus' share of University Opportunity funds for this purpose.

In compliance with Regents' policy, all funds necessary to complete construction will be in hand prior to issuing the project for bid.

(New) Stanley Hall (V)

- (1) The 2006-07 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Berkeley: Stanley Quantitative Biosciences and Bioengineering Facility: – preliminary plans, working drawings, construction, and equipment – \$143,296,000 total project cost, to be funded from gifts (\$93,421,000), the State through the California Institutes for Science and Innovation (\$34,875,000), and external financing using the “Garamendi” funding mechanism (\$15,000,000).

To: Berkeley: Stanley Quantitative Biosciences and Bioengineering Facility: – preliminary plans, working drawings, construction, and equipment – \$143,296,000 total project cost, to be funded from gifts (\$43,421,000), the State through the California Institutes for Science and Innovation (\$34,875,000), and external financing (\$65,000,000).

Deletions by ~~strikeout~~; additions by underscore

(New) Stanley Hall (VI)

follows:

As of December 2006, the receipt of gifts is as

Gifts in hand:	\$42,088,000	\$0
Gifts pledged:	1,333,000	\$22,675,000
Charitable remainder unitrust:	50,000,000	\$50,000,000
<u>Gifts to be raised:</u>	<u>0</u>	<u>\$20,746,000</u>
Total:	\$93,421,000	

Summary

- Many sources of construction funds
Gifts, State, Federal, Loans
- Multi-phase strategies
- Usually commit research overhead for repayment
- About half of projects have financial modifications
Source of funds, costs
- No evidence for direct use of student fees

Resources

<http://www.universityofcalifornia.edu/regents/minutes/>

<http://www.universityofcalifornia.edu/regents/policies/5102.html>

<http://budget.ucop.edu/rbudget/200304/specreg.pdf>

<http://www.ucop.edu/ucophome/policies/acctman/e-525.pdf>

Google will search all this stuff with the “site:” modifier