UCSF
University of California
San Francisco

Overview of UCSF Debt

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Contents of Presentation

What is debt?

- A debt is a financial obligation owed by one party, the debtor, to a second party, the creditor. A debt is created when a creditor agrees to lend a sum of assets to a debtor.
- Debt is usually granted with expected repayment at a later date; in most cases, this includes repayment of the original sum, plus interest.

Why would a University need to borrow money?

Growth

- To launch and expand programs, purchase new property or equipment, or construct facilities, allowing it to increase its capacity to engage in its missions of teaching, research, and service

Cash Flow

- If cash on-hand is insufficient to meet its near-term expenses

Investment

- When it can use the proceeds to generate more money than it costs to borrow

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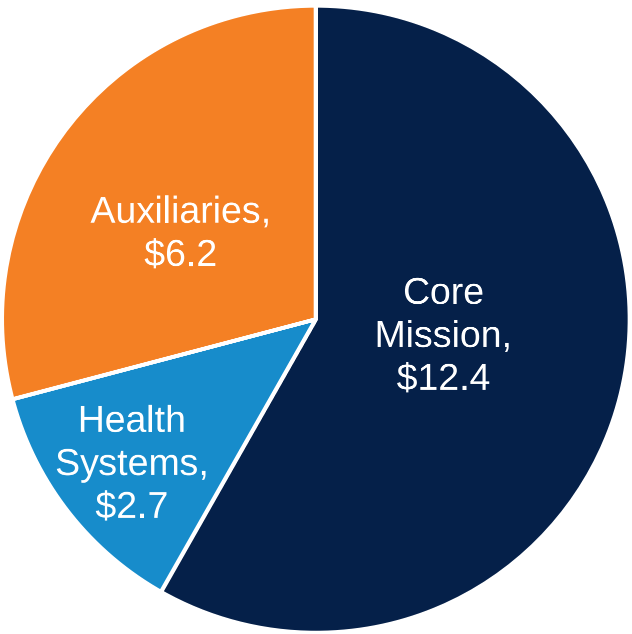
How do we hold debt at the University of California?

- Bonds, loans and commercial paper are all examples of debt
- Systemwide, the University of California has approximately $21.3 billion in outstanding debt for the core mission, health systems, and auxiliaries
- UCSF's share is $3.4 billion or 16%
- The University also has a short-term Commercial Paper program with $2 billion authorized to fund working capital and interim funding for approved projects



Source: UCOP Capital Markets Finance website as of 12/15/18. Dollars in billions.

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Debt offers both advantages and risks within higher education

Advantages:

- **Program expansion:** Using debt to fund facilities and infrastructure investments allows us to increase our programmatic offerings
- **Financial smoothing:** Instead of large, lumpy outflows when new buildings are erected, debt service payments smooth the outflows over time and in this way are akin to lease payments
- **Alignment of inflows and outflows:** Debt allows us to align the outflows with expected inflows from activities occurring at the facility, whether indirect cost recoveries or sales and service revenues
- **Interest cost recovery:** Interest costs on debt can be claimed and recovered through the indirect cost rate on sponsored awards

Risks:

- **Reliance on future revenues:** We could find ourselves overextended and unable to cover debt service costs if revenues decline or fail to grow as projected
- **Diversion of focus from mission:** Unconstrained borrowing could shift our focus from meeting the obligations of our teaching and research mission to expanding our income streams to pay our debt obligations and to keep credit ratings high; if we become overextended we might find ourselves at risk of pursuing activities solely for their economic return, regardless of the educational value of those programs

The UC Office of the President sets a campus borrowing limit, called our debt capacity, to help ensure negative outcomes do not happen.

Total UCSF Borrowing

The amount of principal owed at a given point in time, equal to the total amount borrowed less principal repayments

Debt appears on our UCSF balance sheet as one of our major liabilities

BALANCE SHEET

FINANCING

Net Position
"Owner's Equity"

+

Liabilities

- Pension
- Debt
- Payables

=

INVESTMENTS

Assets

- Cash
- Receivables
- Land
- Buildings
- Equipment

INCOME STATEMENT

OPERATIONS

Revenues

-

Expenses

=

Net Earnings

STATEMENT OF CASH FLOWS

Cash from Financing | **Cash from Investing** | **Cash from Operations**

As of June 30, 2018, UCSF's total debt obligations were $3.4 billion

Assets			Liabilities		
Cash and equivalents	$	1,113	Accounts payable	$	354
Investments		3,697	Accrued salaries and benefits		343
Investments held by trustees		925	Debt		3,436
Accounts receivable, net		948	Due to university		722
Property, plant and equipment, net		4,860	Pension and OPEB liabilities		5,098
Other assets		283	Other liabilities		585
Deferred outflows		1,152	Deferred inflows		1,207
Total assets and deferred outflows	**$**	**12,978**	**Total liabilities and deferred inflows**	**$**	**11,745**
			Net Position	**$**	**1,233**
UCSF Foundation Assets		2,189	UCSF foundation liabilities and deferred inflows		339
Adjusted Total Assets	**$**	**15,167**	**Adjusted Total Liabilities**		**12,084**
			Adjusted Net Position	**$**	**3,083**

Cash and equivalents and Investments include restricted amounts for UCSF Health

Dollars in millions

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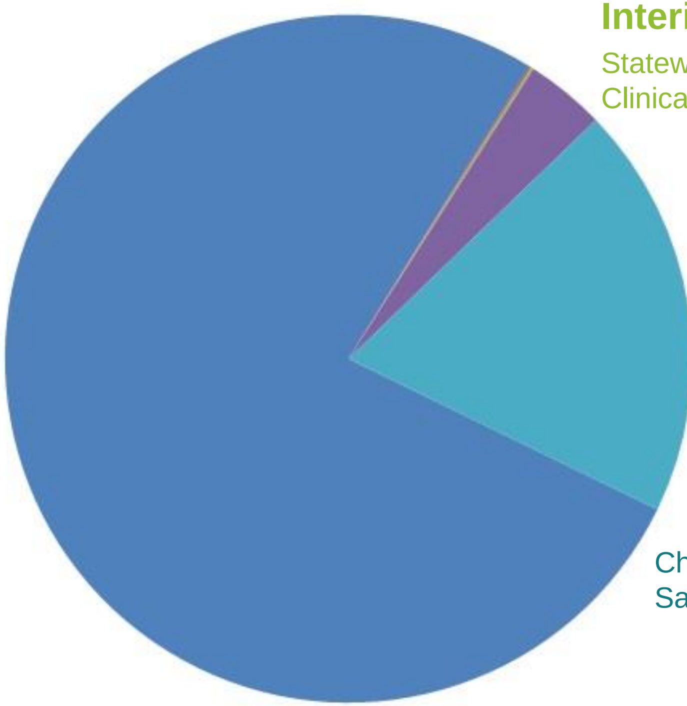
Of UCSF's $3.4 billion in debt, $928 million reflects UCSF Health obligations, and $2.5 billion is campus

- Of the $2.5 billion campus debt, obligations are split between the Core Financial Plan (CFP) and auxiliaries:
  - $2.1 billion is primarily the obligation of the Core Financial Plan, with debt service at $76 million per year, increasing to $138 million in 2024-25
  - $360 million is related to auxiliary projects, with debt service of $10 million in 2017-18 funded by auxiliary revenues
- The Core Financial Plan includes several sources of funds that support operations or offset debt obligations, including:
  - Allocations of state funds by UCOP for former State Public Works Board debt
  - Funds Functioning as Endowments for CVRI and Neurosciences
- UCSF is monitoring its overall debt capacity; in the future, careful management is essential to ensure we have sufficient ability to pay for our ongoing capital needs

Current Core Financial Plan debt obligations reflect support for a diverse set of capital investments

Revenue Bonds, $1,645, 77%

Joan and Sanford I. Weill Neurosciences	$264.9
Cardiovascular Research Building	212.7
Valley Center for Vision	155.9
Century Bonds	140.0
Precision Cancer Medicine Building	124.5
Clinical Sciences Building Seismic	109.3
MB Blocks 33/34 Land	103.8
Mission Hall	81.4
Laurel Heights	57.4
Genentech Hall	53.1
590-600 Minnesota Street Land	53.1
Clinical Sciences Building Decant	49.6
Parnassus Central Utility Plan	42.3
Mt. Zion R/RB Series C	38.6
QB3 Research Building	31.9
Diller Cancer Center Building	26.8
MB Utilities Infrastructure	24.8
MB Block 20 Housing	18.0
MB Utilities & Distribution	16.1
MB Utility Distribution Extension	12.2
Deferred Maintenance	9.5
Other	19.3



Capital Leases, $2.1, 0.1%

Laboratory Equipment

Interim Financing, $2.5, 0.1%

Statewide Energy Partnership Program
Clinical Sciences Building Decant

State-Funded Debt, $80.6, 3.8%

QB3 Research Building SPWB
Moffitt-Long Hospital Seismic SPWB
UCSF Fresno Medical Center SPWB
Clinical Sciences Building Seismic
Health Sciences Towers Life/Safety

Third Party Debt (CFIA), $417.4, 19%

Child, Teen and Family Center	$208.9
Sandler Neurosciences Building	$208.5

Dollars in millions

Auxiliary and UCSF Health debt obligations is almost entirely held in the form of revenue bonds

Auxiliary Debt, $359.9

Minnesota Street Graduate and Trainee Housing	$201.3
MB Block 20 Housing	67.6
MB Hospital Parking Structure	22.3
MB Third Street Parking Structure	18.3
Mt. Zion Parking Structure	16.1
MB Rutter Parking Structure	11.9
Aldea Student Housing Renovation	7.2
Auxiliary Capital Leases*	4.4
Aldea San Miguel Housing Renovation	3.9
145 Irving Housing	3.2
Millberry Union Levels I & J Renovation	1.5
Fifth Avenue Housing	1.5
Millberry Union Fitness Facility	0.4
Faculty Club Improvements	0.1
Total	$359.9

UCSF Health Debt, $927.7

MB Medical Center Hospital	$700.0
UCSF Finance Corporation (de-merger)	64.1
Benioff Children's Hospital Walnut Creek	53.8
Benioff Children's Hospital Oakland	49.3
MB Blocks 36-39 Acquisition	39.9
Mt. Zion Osher Building	20.0
Statewide Energy Partnership Program	0.7
Total	$927.7

Dollars in millions

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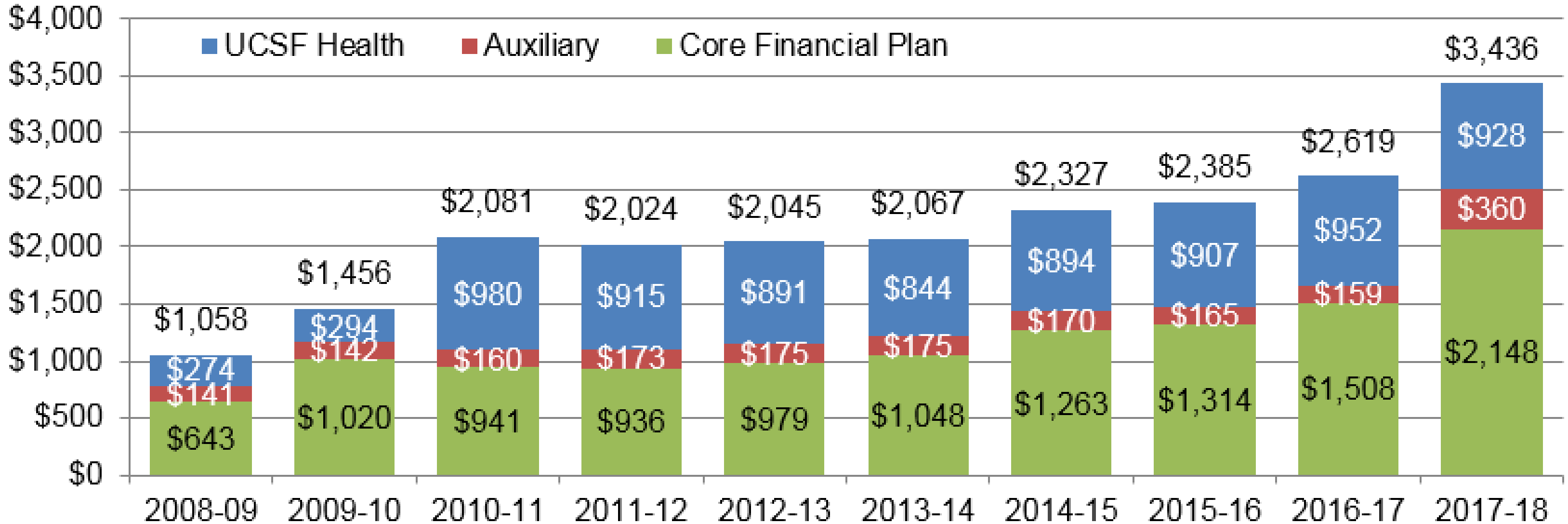
Total debt has more than tripled since 2008-09, primarily due to borrowing for Mission Bay development



Year	Projects
2009-10	Cardiovascular Research Building ($207.6), Sandler Neurosciences Building ($209.3)
2010-11	MB Hospitals ($700)
2011-12	Mt.Zion Parking Garage ($15.8), MB Utilities Infrastructure ($12.8)
2012-13	Century Bonds ($50), MB Utilities Infrastructure ($7.5)
2013-14	Mission Hall ($78.5)
2014-15	MB Blocks 33/34 Land ($111), Century Bonds ($90), Benioff Children's Hospital Walnut Creek ($56), CSB Decant ($37)
2015-16	590-600 Minnesota Street Land ($55.7), Hospital Gift Pledge Bridge ($19.3)
2016-17	Valley Center for Vision Building ($157), CSB Seismic Renovation ($57.4), Benioff Children's Hospital Oakland ($50)
2017-18	Weill Neurosciences Building ($265), Child, Teen and Family Center ($209), Minnesota Street Graduate Student and Trainee Housing ($201), UCSF Health PCMB ($125), CSB Seismic Renovation ($52), MB Utility Distribution Extension ($12.2)

Dollars in millions

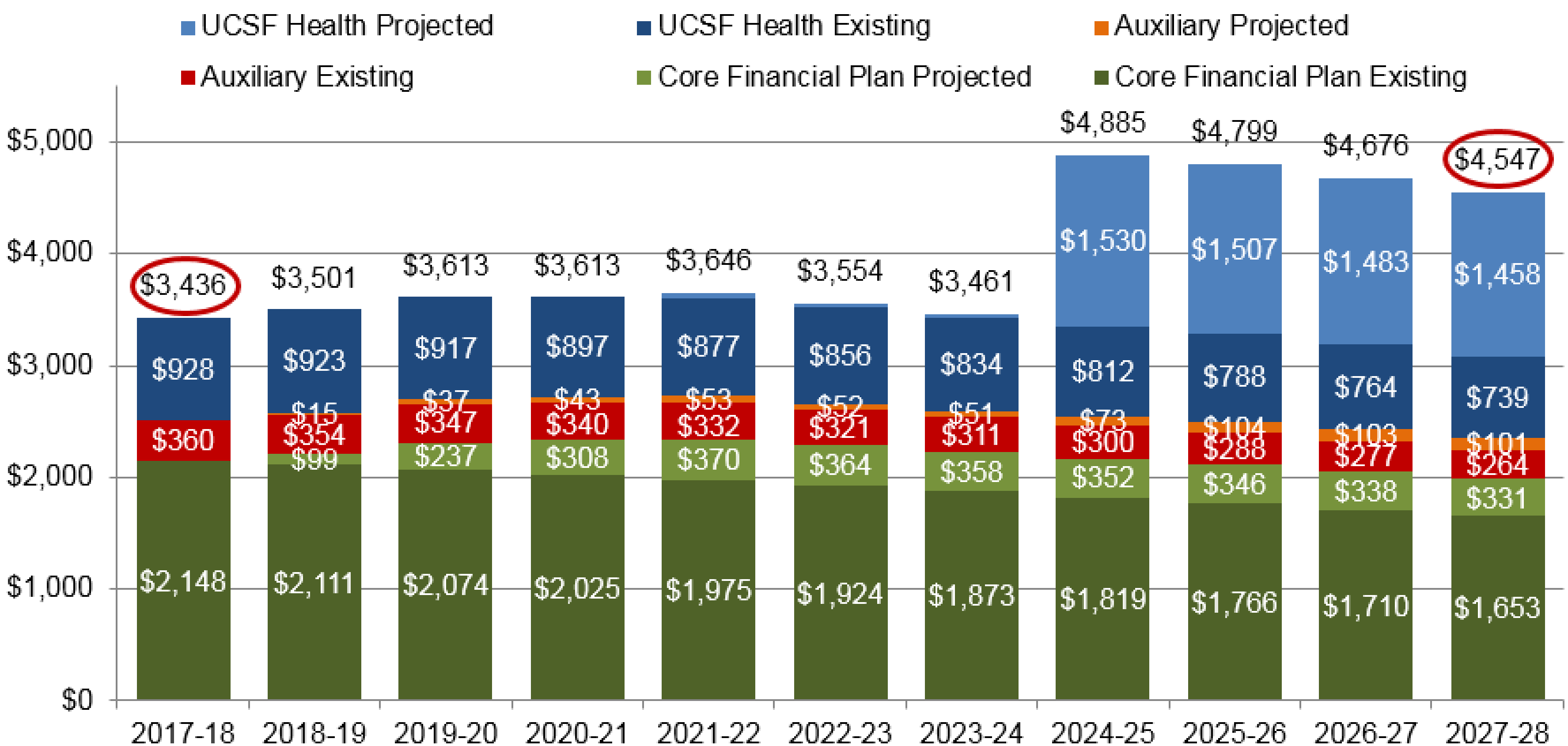
UCSF

We plan to obtain additional debt to support future capital projects planned through 2027-28

Source	Project	Financing Year	Debt
Core Financial Plan	Statewide Energy Partnership Program	2018-19	$6
	North Point	2018-19	24
	CoLabs and Related Decant/Renovations	2019-20	31
	654 Minnesota Street - Police and Risk Consolidations	2020-21	14
	State Seismic and Life Safety (CSB and HSIR)	2018-19 through 2019-20	75
	ZSFG Renovations, Sitework, and Relocations	2020-21 through 2021-22	227
	Subtotal – Core Financial Plan		376
Auxiliaries	MU/ACC Garage Spall Repair	2019-20	19
	Faculty Housing Residential Property Improvements	2019-20	15
	777 Mariposa Garage	2021-22	20
	MB New Garage	2025-26	55
	Subtotal – Auxiliaries		108
UCSF Health	Proton Therapy	2021-22	40
	Helen Diller Medical Center	2024-25	1,500
	Subtotal – UCSF Health		1,540
Total			**$2,025**

Dollars in millions

Future projects will push debt levels near $5 billion within the next 10 years



- The 2018 UCSF ten-year plan includes $7.9 billion of capital projects, of which an estimated $2.0 billion is anticipated to be funded with additional debt
- Core Financial Plan debt will decline to $1.98 billion (a decline of $164 million), Auxiliary Services debt will rise to $365 million (an increase of $6 million), and UCSF Health debt will increase to $2.20 billion (an increase of $1.27 billion) by 2027-28

Dollars in millions

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Financing Rates and Structures

The amount of interest owed expressed as a percentage of outstanding principal and other factors that determine payment amounts

Interest rates and structures vary

- On average, UCSF is paying 3.8% interest on debt

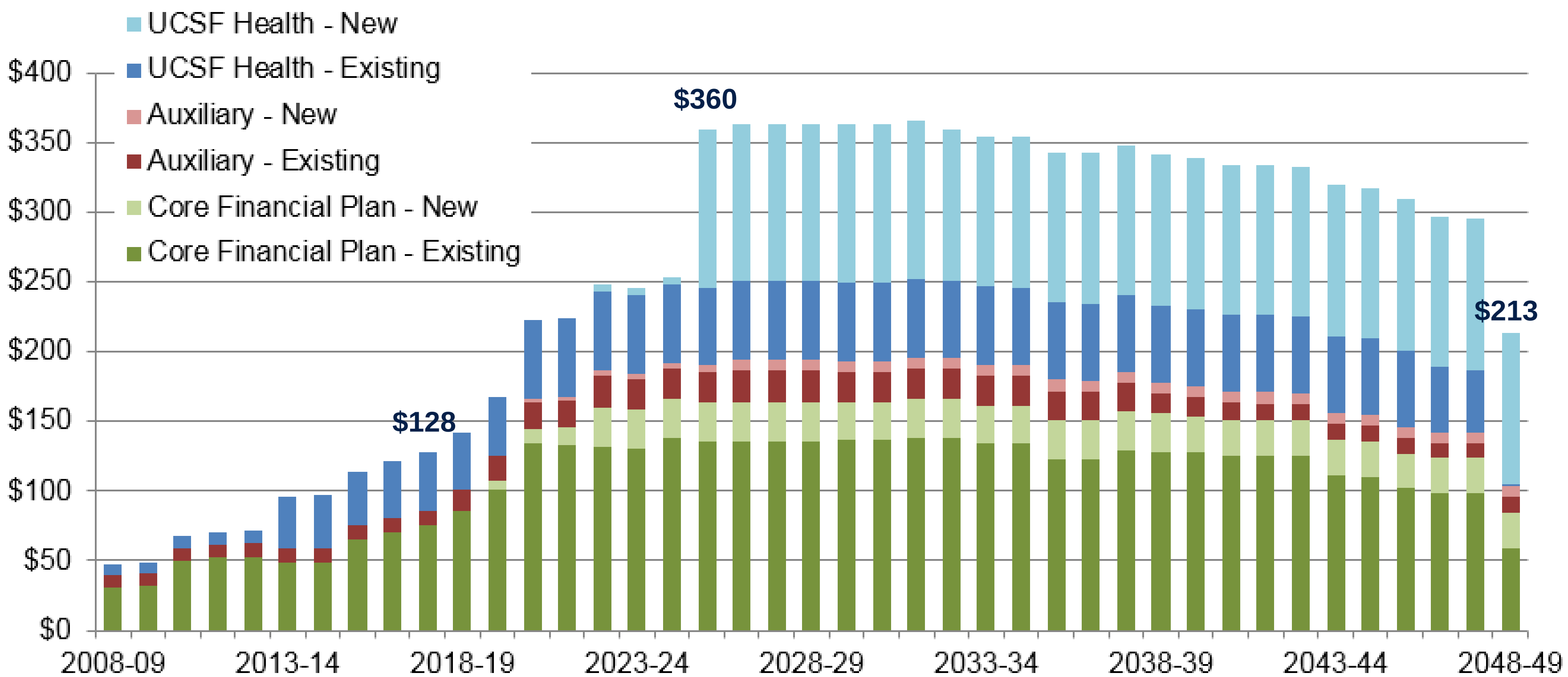
Debt Owner	Average Rate
Campus	
Century Bonds	4.8%
Other	3.6%
Campus Total	3.8%
Auxiliary	3.6%
UCSF Health	4.0%
Total	3.8%

- Most of our debt is structured to be repaid over 30 years of both principal and interest payments
  - For the Diller Comprehensive Cancer Center and Smith Cardiovascular Research buildings, financing was interest-only for the first ten years
  - Some of our debt has been restructured to defer payments to later years

Debt Service Payments

The amount of money you are required to pay on a loan for a particular time period, typically a year, to cover the repayment of interest and principal on a debt

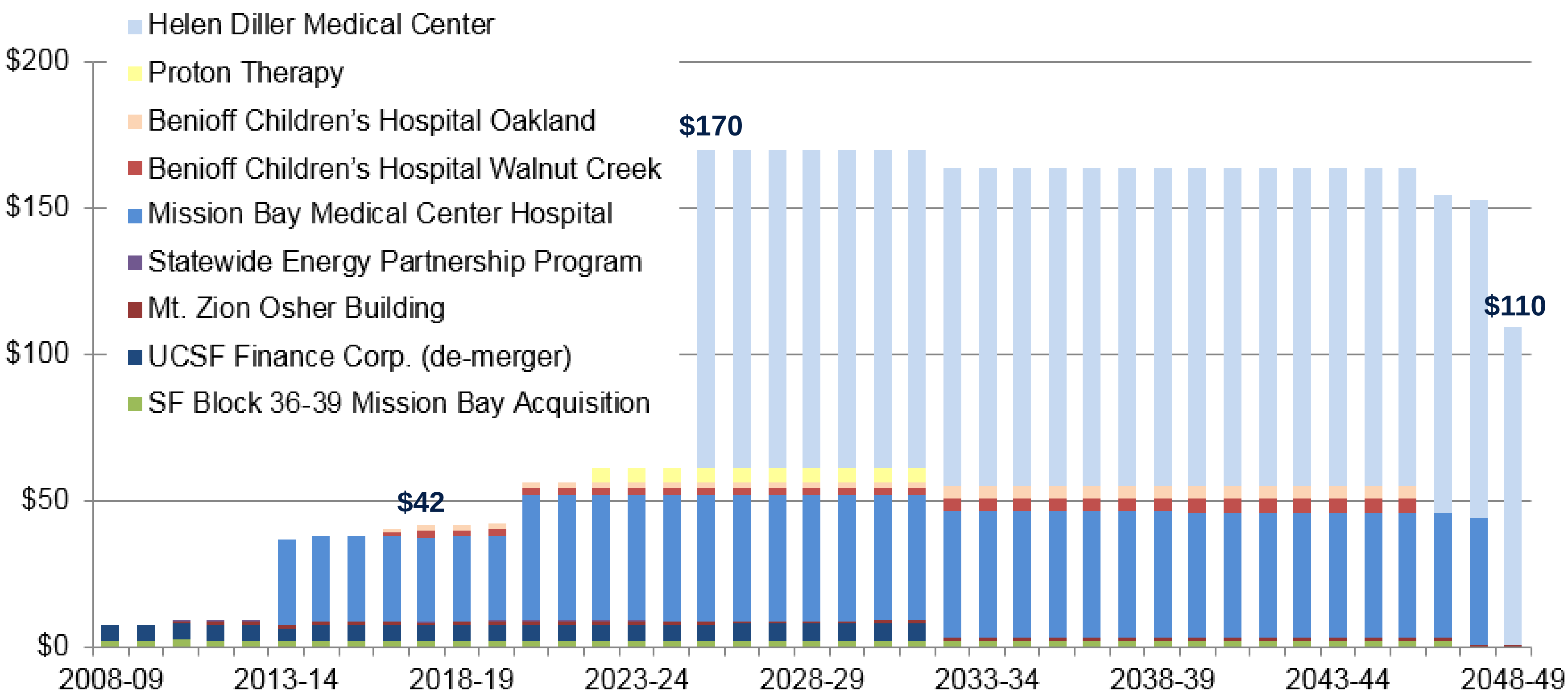
UCSF annual debt service is expected to rise to $360 million per year by 2025-26



- Net of Build America Bonds (BABs) subsidies
- Excludes interim financing and non-SPWB capital lease obligations

Dollars in millions

UCSF Health debt service will rise to $170 million in 2025-26 when payments begin for additional projects



- UCSF Health debt service increased from $7 million in 2008-09 to $42 million in 2017-18, primarily due to the new Mission Bay hospital
- Further increases to $170 million in 2025-26 are due to the conclusion of interest-only payments for the Mission Bay hospital as well as new debt for Proton Therapy and the Helen Diller Medical Center

- Net of Build America Bonds (BABs) subsidies
- Excludes interim financing and non-SPWB capital lease obligations

Dollars in millions

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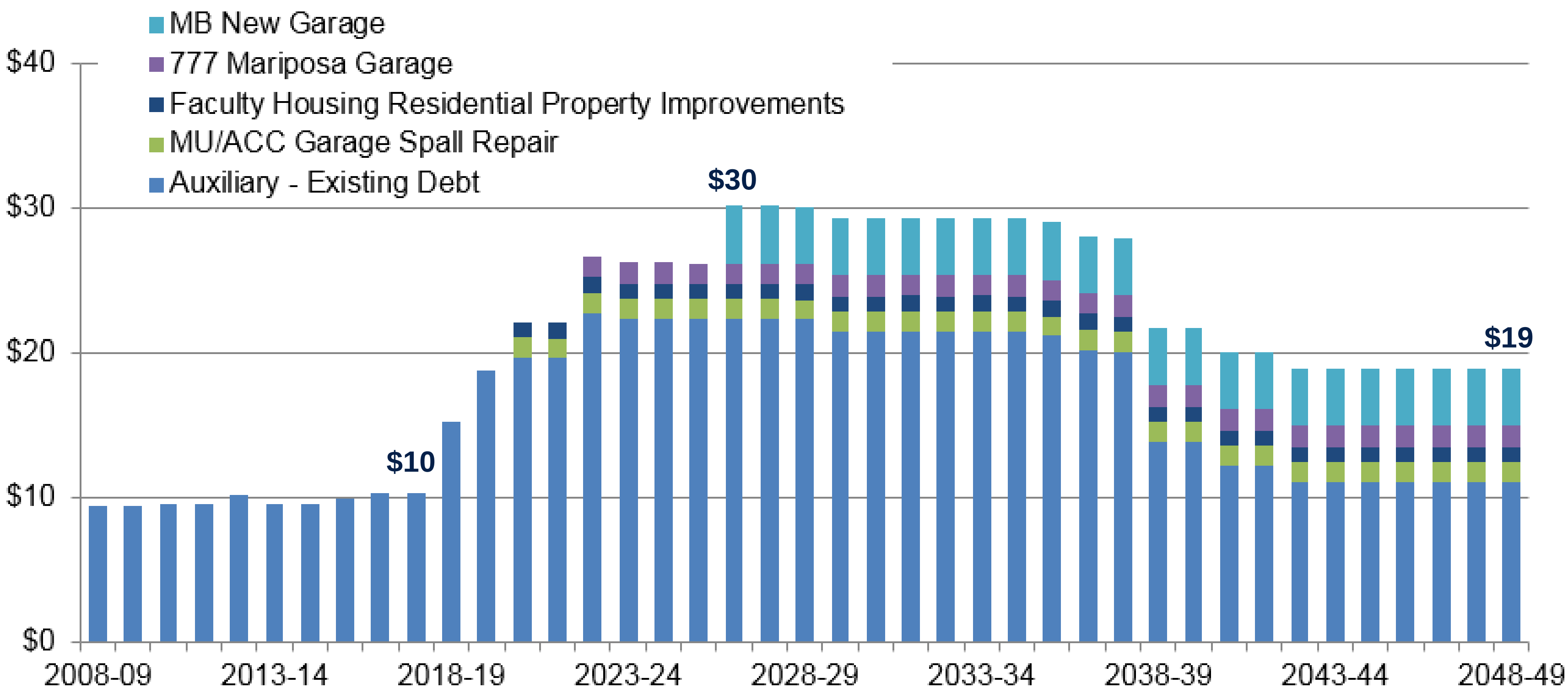
Auxiliary debt service will increase to $30 million per year by 2026-27



- Auxiliary debt service for the Minnesota Street Graduate and Trainee Housing was issued in 2017-18 and is structured as interest-only until FY 2022-23

- Net of Build America Bonds (BABs) subsidies
- Excludes interim financing and non-SPWB capital lease obligations

Dollars in millions

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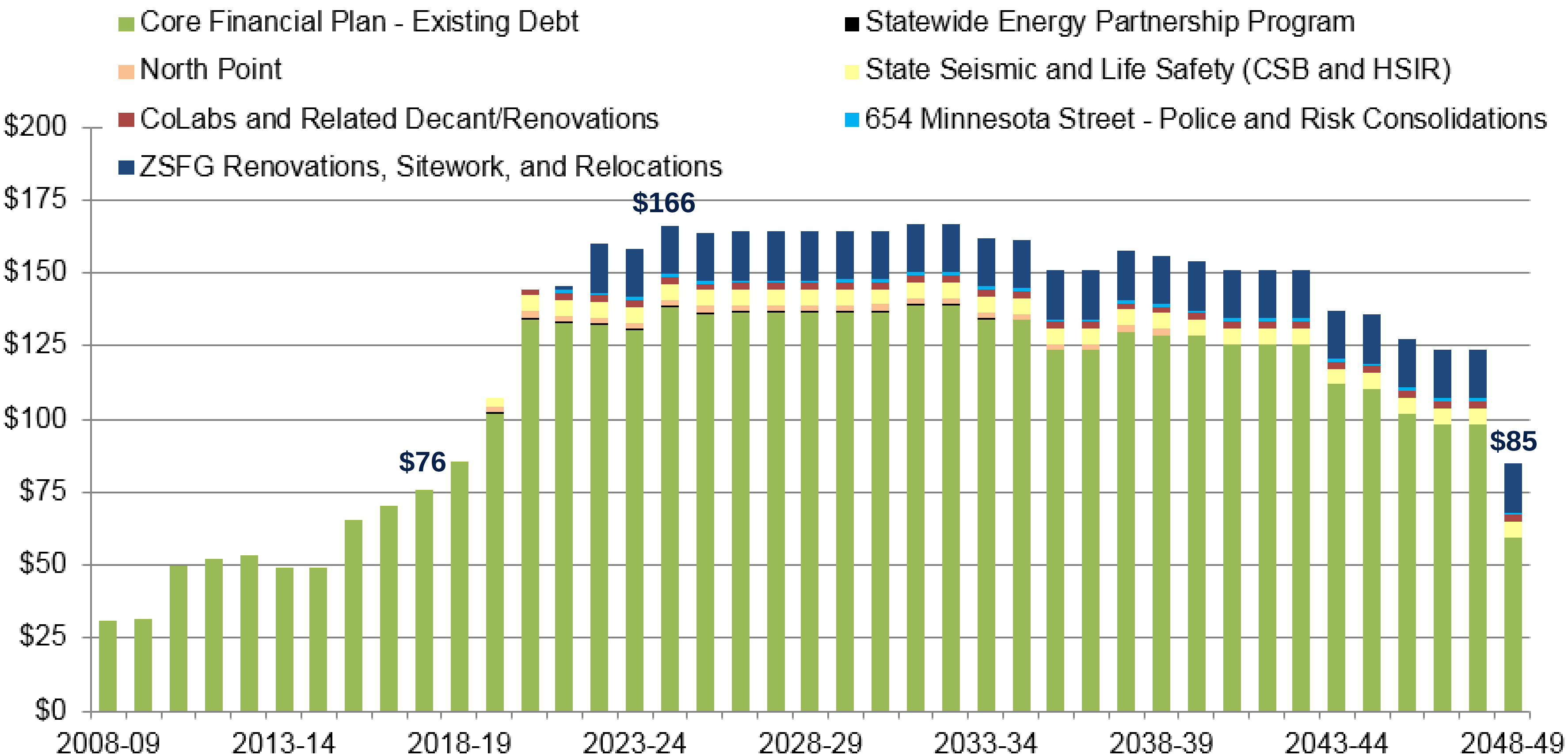
Debt service for Parnassus and Mission Bay projects will increase annual CFP obligations to $166 million



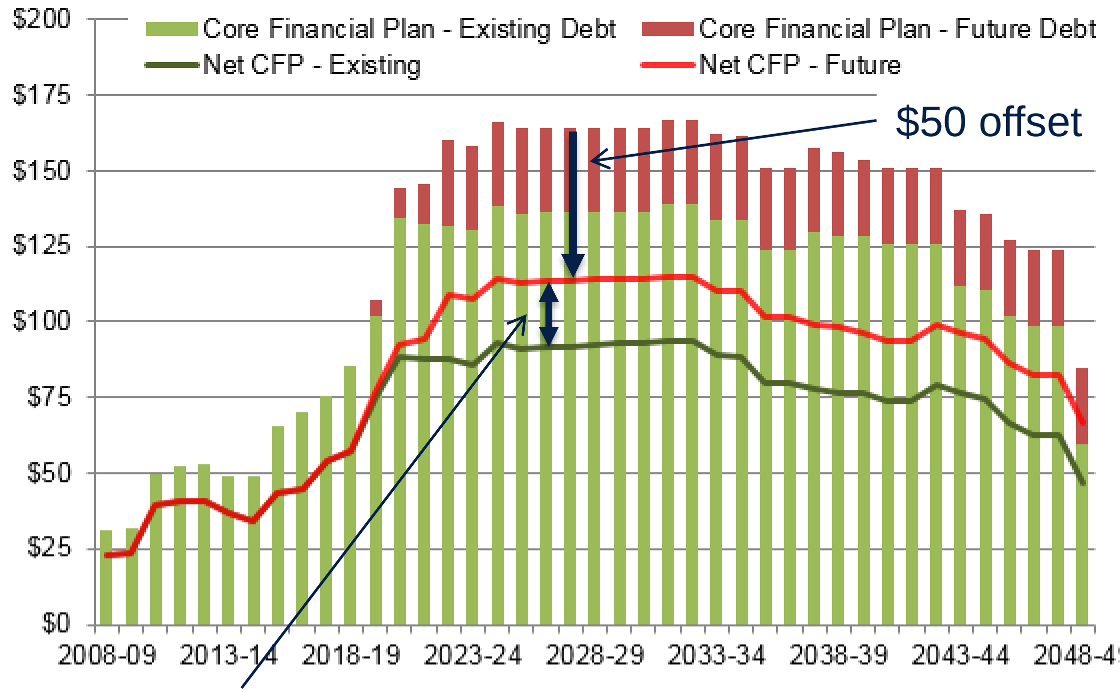
- Net of Build America Bonds (BABs) subsidies
- Excludes interim financing and non-SPWB capital lease obligations

Dollars in millions

Offsets will contribute $50 million annually to the CFP during the next decade

Highlights:

- CVRB has a Fund Functioning as Endowment (FFE) to partly offset the total operating costs, $6.7 million annually through 2019-20 and $11 million 2020-21 through 2042-43
- Sandler Neurosciences has an FFE to offset total operating costs, averaging $5.2 million annually through 2041-42 (assumes all gifts and pledges received by 2020-21)
- UCOP allocates state funds to cover debt service for state funded projects, averaging $4.5 million annually through 2047-48
- Mission Hall debt will be partially paid by the School of Medicine and UCSF Health ($2.7 million annually through 2023-24 and $3.9 million 2024-25 through 2048-49)
- The UCSF Health PCMB debt will be entirely paid by UCSF Health ($8 million annually rising to $16.8 million annually in 2037-38)
- UCSF Health will also contribute to debt service for the Weill Neurosciences, the Valley Center for Vision, and the Child, Teen and Family Center buildings (combined $10 million annually)



$22 impact on CFP of additional debt funded projects in 10-year Capital Plan

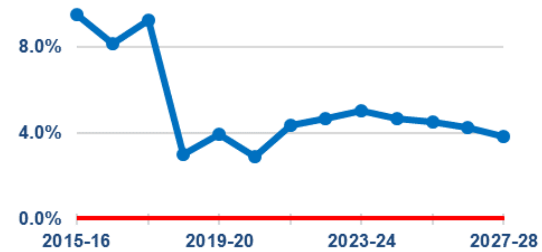
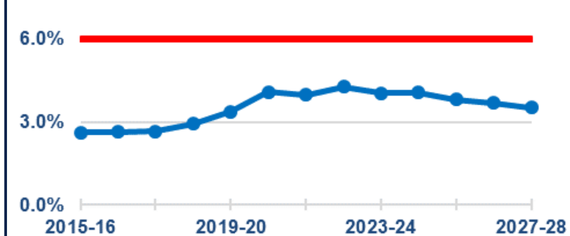
- Net of Build America Bonds (BABs) subsidies
- Excludes interim financing and non-SPWB capital lease obligations

Dollars in millions

Campus Debt Capacity

The amount of money you are able to borrow and repay within a specified period without jeopardizing your overall financial well-being

UCSF currently meets two of the three campus debt service tests in Regents policy

Ratio	Description	Test	Dashboard	Status
Modified Cash Flow Margin (must meet)	Net income / Operating revenues	≥ 0%		✓
Debt Service to Operations	Debt service / Operating expenses	≤ 6%		✓
Expendable Resources to Debt	Expendable resources / Total debt	≥ 1	0.90	X

Expendable resources defined as unrestricted net assets plus expendable portions of gifts and endowments, less liabilities for pension and OPEB

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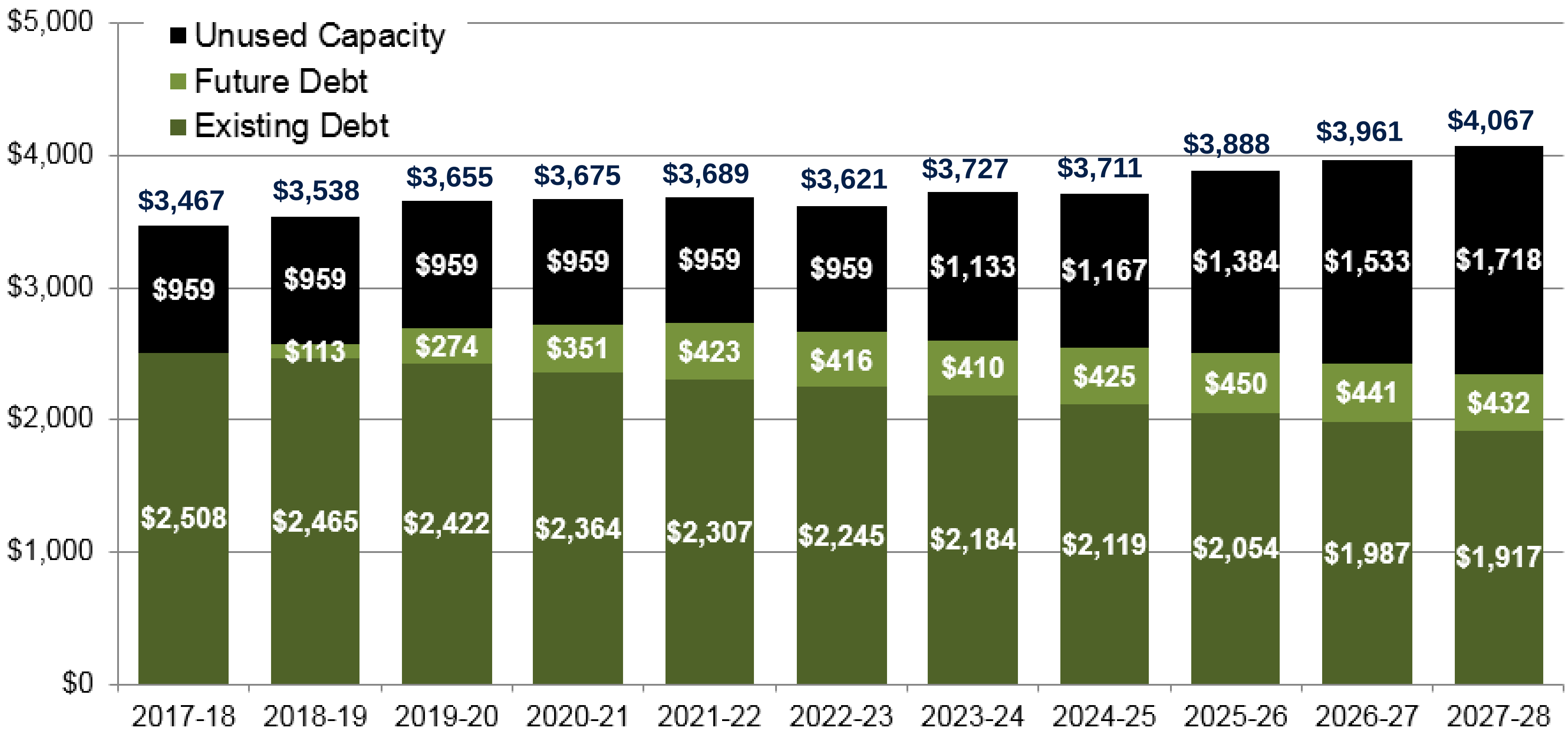
We must manage campus debt capacity to allow for programmatic investments beyond the next ten years



- Debt capacity above is shown for the campus segment (CFP plus Auxiliary)

Dollars in millions

Projected 2023-24 financial performance positions UCSF Health to borrow $1.5 billion in 2024-25

- Focus on four key financial metrics important to UCOP and rating agencies

	Pre-HDMC			Post-HDMC		
Debt Capacity Metric	UCSF 2024-25	UC Average	Status	UCSF 2024-25	UC Average	Status
Operating Margin	8.0%	6.9%	✓	8.0%	6.9%	✓
Days Cash on Hand	151	109	✓	151	109	✓
Annual Debt Service Coverage	12.8	7.8	✓	5.2	7.8	✓
Debt/Capitalization	27%	53%	✓	52%	53%	
Points	**254**	**167**	✓	**174**	**167**	✓
S&P Rating	**AA+**	**AA/AA-**	✓	**AA/AA-**	**AA/AA-**	✓

Conclusion

- UCSF has increased debt obligations by over $2 billion since 2008-09, to $3.4 billion
- New project needs in the next 10 years (such as Parnassus, ZFGH seismic and Mission Bay projects) will put additional pressure on the discretionary funds in the Core Financial Plan
- The Core Financial Plan has offsets that help pay for central obligations, but these are dependent upon future gifts and growth in FFE balances
- We must be mindful of debt capacity to allow for opportunistic investments and programmatic aspirations beyond the next ten years

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