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Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General respectfully submits its report concerning University of California Property Management. Specifically, the report discusses property owned or controlled by the Regents, property used for purposes other than those for which it was acquired, property that is not used for academic purposes, and tax revenue realized by local government on taxable possessory interests.

Respectfully submitted,

Thomas W. Hayes

THOMAS W. HAYES
Auditor General

REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

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UNIVERSITY OF CALIFORNIA
PROPERTY MANAGEMENT

JANUARY 1983

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SUMMARY

The Regents of the University of California (regents) are authorized to take and hold title to any real property necessary to fully exercise their powers. This report updates the 1978 Auditor General's audit of California property owned or controlled by the Regents of the University of California. It also answers specific questions posed by the Legislature that deal with four areas: property owned or controlled by the regents; property used for purposes other than those for which it was acquired; property that is not used for academic purposes; and revenue realized by local governments from possessory interest tax on university property.

Property Owned and Leased

Since 1976, University of California (university) property used for academic purposes has increased by 4,522 acres to a total of 53,115 acres. Most of this increase consisted of additions to the university's Natural Land and Water Reserves System. During this period, the university also received 53 new endowment properties. Endowment property now totals approximately 10,000 acres. In total, the university has acquired an additional 4,902 acres of academic and endowment property since 1976.

In addition to its property holdings, the university leases space for academic programs that cannot be accommodated in present university facilities. In fiscal year 1981-82, the

university paid $8.2 million to lease such space. The university followed proper procedures in leasing this space and leased it at a rate equal to or lower than prevailing rates for comparable property in the same area. The university did not lease space in locations where it owns suitable endowment property.

Uses of University Property

The present uses of property acquired since 1976 are consistent with the purposes for which the property was acquired. Also, at the two University of California campuses we visited, we found that university officials generally followed required review and approval steps for acquiring and disposing of real property.

The university owns property, acquired prior to 1976, that is not used for academic purposes. Some of this property has been designated for future academic use; other property is not currently designated for academic use. Some of the property not designated for academic use is not suitable for development but is being retained because of utilitarian, scientific, historical, or aesthetic value. However, some of this property is currently used for research purposes. The university's endowment property is not ordinarily used for academic purposes.

Taxes on University Property

We also collected information on property taxes assessed on university property that is leased out to private interests. All property owned by the university, whether used

for academic programs or not, is exempt from property taxes. However, when university property is leased to private interests, this property is subject to a possessory interest tax that is paid by the lessee. In fiscal year 1981-82, 16 California counties that responded to our review collected an estimated $100,000 in possessory interest taxes on university property. The tax yield from possessory interest tax is lower than the tax yield would be if the property were taxed at a rate applied to privately owned property. These California counties would have collected at least $422,200 in additional tax revenues if the university property leased to outside interests had been taxed as though privately owned.

INTRODUCTION

The California Constitution establishes the University of California (university) as a public trust to be administered by an independent governing board known as "The Regents of the University of California" (regents). The regents, according to Article IX of the Constitution, are "subject only to such legislative control as may be necessary to insure the security of [their] funds and compliance with the terms of the endowments of the university." The administrative structure of the university is headed by a president; each of the nine campuses is headed by a chancellor.

The regents have the authority to take and hold title to any real property necessary for the full exercise of their powers. When state funds are involved, the university's acquisitions of property could be subject to review by the Legislature and the State Public Works Board. The university may also sell, lease, or exchange its property. Competitive bidding is required if the estimated value of the real property to be sold exceeds $50,000.

The responsibility for administering the real property holdings of the university is divided between the President of the University, and the Treasurer of the Regents, subject to control by the regents. The president administers campus property and approves certain leases. The treasurer administers noncampus property, negotiates the acquisitions or disposals of all real property, and assists campus personnel in negotiating leases.

SCOPE AND METHODOLOGY

In response to specific questions from the Legislature, we provide the following information on California property owned or controlled by the Regents of the University of California: (1) a summary of all property owned or controlled by the regents, (2) information on property used for purposes other than those for which it was acquired, (3) a description of property that is not used for academic purposes or for student or faculty housing, indicating the purposes for which the property is being used, and (4) information on the amount of tax revenue realized by local governments from possessory interest tax on university property. We compared

this to the estimated tax revenue that would have been realized had the university property been taxed as though privately owned.

We based our report on a review of University of California property records for fiscal years 1976-77 through 1981-82. Much of the information provided here is an update of the information provided in the Auditor General's 1978 report entitled, "University of California's Management of Real Estate" (P-715.4), February 1978.

Because the responsibility for managing the university's real property is divided between the president and the treasurer, with other management responsibilities delegated to the chancellors of the local campuses, we interviewed officials of the president's systemwide administration, officials of the treasurer's office, and appropriate campus officials at three campuses. Also, since property constituting the agricultural field stations is administered independently of other academic property, we interviewed officials at the university's agricultural field station headquarters.

We examined applicable sections of the Education Code, other appropriate state laws and regulations, and university policy statements governing the management of university property. Finally, we obtained information from tax assessors in 17 counties where university property subject to the possessory interest tax is located.

AUDIT RESULTS

I

PROPERTY OWNED OR CONTROLLED BY THE UNIVERSITY OF CALIFORNIA

The Regents of the University of California own academic and nonacademic property that is acquired by purchase, gift, or exchange. Academic property includes the nine campuses, field and research stations, agricultural field stations, and the Natural Land and Water Reserves System property. The university's academic property holdings have increased by 4,522 acres since 1976, to a total of 53,115 acres. In addition, the university owns and manages approximately 10,000 acres of endowment property. The university retains endowment property that is producing market income and sells property that is producing below market returns. Occasionally, endowment property is converted to an academic use. The university also leases privately owned space for use by academic programs and currently pays $8.2 million annually for such leases. The university follows prescribed procedures for leasing space, leases at a cost equal to or lower than the rate for comparable space in the same vicinity, and does not lease space in an area where suitable endowment property is available.

University of California Property
Used for Academic Purposes

The university's academic property is composed of the nine university campuses, the university's eight research stations, the nine agricultural field stations, and areas within the Natural Land and Water Reserves System. Standing Order 100.4 of the Board of Regents defines properties used for campus-related purposes as "properties within the boundaries of a campus of the University and other properties used for student and employee housing, parking, athletic programs, research, public service, educational programs, or administrative staff purposes of the University." In this report we refer to these properties as "academic properties."

The president is responsible for the management of the academic property, although the president has delegated much of this responsibility to the campus chancellors.

Table 1 on the next page shows the amount of academic property owned by the university in 1976 and in 1982. As of July 1, 1976, the University of California owned 48,593 acres of academic property. As of July 1, 1982, academic property owned by the university had increased by 4,522 acres, to a total of 53,115 acres. As Table 1 shows, this increase

consists primarily of additions to the university's Natural Land and Water Reserves System. (Appendix A provides a more detailed listing of the university's academic property.)

TABLE 1

ACADEMIC PROPERTY OWNED
BY THE UNIVERSITY OF CALIFORNIA
1976 AND 1982

	Acres Owned in 1976	Acres Owned in 1982	Increase (Decrease)
Main Campuses and Outlying Properties	24,103	24,036	(67)
Field and Research Stations	3,467	3,467	0
Agricultural Field Stations	12,177	12,098	(79)
Natural Land and Water Reserves System	8,316	12,986	4,670
Other[a]	530	528	(2)
Total	48,593	53,115	4,522

[a] These other properties include the San Francisco Art Institute and several properties that the State of California received from the federal government in 1862 for the benefit of higher education, as well as Hastings College of Law in San Francisco which is no longer owned by the university but has been transferred to the Board of Trustees of Hastings College of Law.

Main Campuses and
Outlying Properties

Campus property includes property forming each of the nine main campuses in addition to outlying properties. Outlying properties are those that are not part of the central

campus area, although in most cases they are in the vicinity of a campus. Outlying properties accommodate a variety of academically related activities that can be appropriately located off campus, including engineering field stations, storage facilities, medical centers, and student and faculty housing.

Since 1976, little property has been added to or deleted from the nine campuses. As Table 1 shows, the university has had a net decrease of 67 acres in its campus and outlying properties since July 1976. The decrease is attributed to the sale of properties by the university and the university's transferring campus property to the NLWRS. Most of the acquisitions of campus and outlying properties were additions to the university's medical centers. For example, in 1976 the university purchased the Orange County Medical Center to be used as a teaching hospital for the Irvine campus. Also, between 1976 and 1982, the university purchased the San Diego County Hospital and surrounding properties to accommodate the university's medical center at San Diego. The university also acquired property for use by the medical centers at San Francisco and Davis.

Field and Research Stations

The university also owns eight field and research stations that are used for a variety of research and teaching purposes, including forestry demonstration projects, earthquake monitoring, and viticultural and agricultural research. These properties currently total 3,467 acres, which is unchanged from 1976. (Appendix B shows the location, size, and use of each of the eight field and research stations.)

Agricultural Field Stations

The university's nine agricultural field stations are also considered academic property. Agricultural field stations provide opportunities for research on various types of soil, water, topography, climate, or native pests not available on a campus. In 1978 the university sold its Antelope Valley agricultural field station in Los Angeles County because increasing operating costs and budget reductions made it impractical to continue maintaining the property. This reduced the total acreage used for agricultural field stations by 79 acres to the current total of 12,098 acres. (Appendix C shows the location and size of the agricultural field stations.)

Natural Land and Water Reserves System

Property in the Natural Land and Water Reserves System (NLWRS) is also used for academic programs. The NLWRS was established by the regents in 1965 to protect representative samples of diverse California habitats for teaching and research in the natural sciences. Nearly all of the additions to university property holdings in recent years have been additions to the NLWRS. Since 1976, the university has increased its NLWRS holdings by 4,670 acres. Gifts to the university accounted for most of this increase. Currently, the NLWRS comprises 12,986 acres.

University of California Endowment Property

In addition to property that it owns and uses for academic purposes, the university also owns and manages endowment property, that is, property contributed as gifts to the university. In accordance with the bylaws of the regents, the treasurer is authorized to receive gifts, including real property, on behalf of the university. The treasurer is also responsible for managing endowment property. Some university endowment property is retained as income-producing property. Endowment property may also be sold, or converted to an academic use. Some endowment property must be used in accordance with conditions placed upon the gift by the donor.

In accordance with the fiduciary responsibility of the regents and as a matter of investment policy in the management of endowment properties, the university retains property that is producing a market return.* Endowment property held for income purposes includes commercial, industrial, agricultural, and residential property. Thus, of the properties comprising the nearly 10,000 acres currently in the university's endowment portfolio, some are income producing properties that are being held because they are producing a market return.

The university attempts to sell endowment property that does not produce a market return and that is not encumbered by donor restrictions. Since 1976, the university has received 53 new endowment properties. During this same period the university disposed of 72 properties in the endowment portfolio; 54 of these were sold, 18 were exchanged for other properties. Proceeds from the sale of endowment property during this period were approximately $3.7 million.

* Market return is the rate of return the university could get if it invested in the current highest yield form of investment. This could be stocks, bonds, mutual funds, or certificates of deposit.

The following example illustrates the university's sale of endowment properties. In fiscal year 1977-78, in the midst of a favorable market for real estate, the treasurer was able to sell a number of holdings. These properties were mostly unimproved land and did not produce income. The "Treasurer's Annual Report" to the regents for that year contains this description of those properties: "Fifteen properties were sold. Sales included a hotel/commercial property in downtown San Francisco, 36 acres of vineyard land in Lodi, commercially-zoned land in Santa Cruz and Auburn, two homes and various other small land parcels."

Occasionally, endowment property is converted to academic use. One endowment property located in Sacramento County has been turned over to UC Davis to be used as an Indian lore library. Another property close to UC Berkeley is being used for faculty and student housing. A third endowment property located in Santa Cruz County is used by the Santa Cruz campus to house federally funded grant programs. As indicated earlier, a number of gift properties are now a part of the university's Natural Land and Water Reserves System.

Many endowment properties donated to the university are subject to restrictions on their use placed by the donor. For example, the university was given a residence with an adjacent garden located in Los Angeles with the condition that

the university agree to retain the garden portion of the property. Donor restrictions on other endowment property may direct generated income to a variety of purposes including cancer research, heart research, and student scholarships.

University of California Leases

The university also leases privately owned space for academic programs, currently holding 253 such leases at eight campuses and at the university headquarters in Berkeley. Only UC Riverside does not currently lease space. As of July 1, 1982, the university paid $8.2 million annually to lease space.

The bylaws of the regents authorize the president and the Secretary of the Regents to sign real property leases or rental agreements and authorize the treasurer to negotiate real property leases or rental agreements. Procedures for negotiating, approving, and signing lease agreements vary depending upon the amount of the rental and the term of the lease.

Because leasing is a significant part of the university's real estate management function, we reviewed a sample of 20 lease agreements at two campuses that do a large amount of leasing--UCLA and UC Davis. We found that proper procedures were followed in negotiating, approving, and signing

all 20 leases. Furthermore, for all 20 lease agreements, the university leased space at fair market value and properly justified the need for space. For example, one lease agreement for space near UCLA involved a renewal for a five-year period. The rental rate was $1.75 per square foot. According to a local real estate agent and the UCLA property manager, the prevailing rate for comparable space in that vicinity was then $2.00 per square foot. Our review of this lease agreement indicated that the necessary approvals were made by the regents, the Secretary of the Regents, and the regents' legal counsel.

We also examined a five-year lease at UC Davis. The rate was $0.62 per square foot, which was below the rate for comparable office space in the same area. The university found that other comparable space near the desired location ranged from $0.70 to $0.80 per square foot. The additional office space was required to house the Finance Division of the UC Davis Medical Center near the hospital and to eliminate inadequacies in the Finance Division's previous location. The lease was reviewed by the treasurer and properly approved by the regents and signed by the secretary.

The Auditor General's 1978 report on university property management observed that "there is no central clearing point where rental requirements and available sources are matched to prevent the possibility of the university renting property in an area where it owns a suitable and vacant location." The university still does not have a central clearing point that would prevent such a possibility. To determine whether the university rented property in an area where it already owned a suitable and vacant location, we compared facilities leased by the UCLA, UC Davis, and UC Berkeley campuses to a list of university endowment property. In addition to determining whether the university already owned endowment property in the area where it was leasing space, we weighed the suitability of any such endowment property for campus use, and determined whether the use of the property was restricted, whether it was being sold, or whether it was already leased. We concluded that although the university still does not have a central clearing point for leases, the university did not own suitable property in an area in which it was leasing space. On the other hand, as we pointed out on page 12, we did find several instances in which the university had converted endowment property to an academic use. For example, one endowment property was turned over to UC Davis to be used as an Indian lore library; another property is being used for faculty and student housing by UC Berkeley.

II

RECENT ACQUISITIONS OF UNIVERSITY PROPERTY, THE PURPOSES FOR WHICH IT WAS ACQUIRED, AND THE PROCEDURES FOR ACQUISITION

The Legislature asked for a list of all university property that is used for purposes other than for which it was acquired. The Auditor General's last report on university property presented information on property holdings as of July 1976. In this section, we present information based upon our review of acquisitions of academic property for the period from July 1976 to July 1982. We compared present or intended uses of these acquisitions to the purposes for which the property was acquired and found that uses of property acquired during this period are consistent with the purposes for which the property was acquired. In addition, to assess whether the university follows prescribed procedures in property transactions, we examined acquisitions and disposals of real property at two of the nine university campuses and at the university's agricultural field station headquarters. We found that university officials have generally complied with the university and state regulations governing such transactions.

The California Constitution and the Education Code give the regents authority to acquire or dispose of real property. The initial request for an acquisition of academic property usually comes from one of the campuses. The chancellor of a campus forwards the request to the president of the university who reviews the request, and sends it to the regents for final approval. The Treasurer of the Regents is responsible for negotiating the acquisition. When state funds are involved, the request may be further subject to review by the Legislature and the State Public Works Board.

Acquisitions

Since 1976, the regents have acquired 4,902 acres of property. Of this total, the regents acquired 2,425 acres through purchases, 2,110 acres as gifts, and 367 acres through transfers or exchanges. The acquisitions consisted of 4 student/faculty housing units, 2 warehouses, 1 veterinary medicine teaching facility, 17 additions to the university medical centers at five campuses, 5 properties for general campus use, and 19 Natural Land and Water Reserves System (NLWRS) properties. Most of the acres acquired by purchase were not connected with the main campuses. Table 2 on the following page lists the purchases for each campus, including purchases of NLWRS land, showing the total size of the

purchases and the current or intended use. Since little property was purchased for main campuses, main campus property purchases are not included in the table.

TABLE 2

UNIVERSITY OF CALIFORNIA
OUTLYING PROPERTY PURCHASED
BETWEEN JULY 1, 1976 AND JULY 1, 1982

Campus	Description of Property	Present or Planned Uses	Acres
Berkeley	Warehouse	Campus storage	7.2
Davis	Parcel in Tulare County	Site of a veterinary training facility	140.7
	Unimproved parcel	Parking for university hospital	5.6
	Unimproved canyon land	NLWRS[a]	277.0
Irvine	Parcel of land	Addition to university hospital	.6
	Hospital	University hospital	31.0
Los Angeles	Three multiple unit residential dwellings	Student housing	2.7
	Warehouse	Campus storage	2.3
Riverside	Four sites of unimproved land	NLWRS[a]	1,933.0
San Diego	Eight parcels adjacent to hospital	University hospital offices and garage space	18.2
	Two commercial buildings	Addition to university medical school	.1
San Francisco	Storage facility	Storage for university hospital	2.6
Total			2,421.0

[a] Natural Land and Water Reserves System.

To determine whether present or intended uses of recently acquired property conform to the purposes for which the property was purchased, and whether university officials complied with state requirements and university regulations governing purchases of real property, we examined selected purchases of property at UCLA and UC Davis. The university acquired property at the two campuses for housing, teaching, research, and storage purposes, using both state and nonstate funds. We found that present or planned uses of these acquisitions do conform to the purposes for which the properties were purchased. We also found that university officials were generally in compliance with university regulations and state requirements in negotiating the transactions. The following examples are typical of university purchases.

The university purchased three apartment complexes near the UCLA campus for student and faculty housing. Our review showed that the complexes are currently being used for the stated purposes. Each approved proposal included a justification of need, evidence of an appraisal, a negotiated cost near or below the fair market value, and terms for financing the acquisition. The cost of the housing will be repaid from the rental income.

In another case, because of an established need for the site, the regents purchased 140 acres of land in the San Joaquin Valley for a veterinary medicine teaching facility. This land is reserved for that purpose. The Legislature appropriated funds for the purchase. The regents paid less than the appraised value and leased the land back to the previous owner for farming until the university commenced construction of the field facility.

In July 1979, the university purchased the 277-acre Stebbins Cold Canyon Reserve for inclusion in the NLWRS. The property is located just east of Lake Berryessa near the UC Davis campus. The diversity and undisturbed nature of the site along with its proximity to the Davis campus made the property desirable for teaching and field research by a number of biological and environmental science departments. Before being purchased by the university, the property had been used for these purposes by UC Davis classes. When the owner placed the property on the market for sale, there was a chance that new owners would change the use of the canyon, possibly preventing further use by UC Davis. The proposal to purchase this property included a justification of need and was approved by the regents. The property was purchased at fair market value with nonstate funds, including a Ford Foundation grant.

Sales or Exchanges

During the period from July 1976 to July 1982, the university also sold or exchanged 1,660 acres of academic property, including NLWRS lands. Proceeds from the sale of the property amounted to $10.6 million. The properties sold were no longer needed for any teaching, research, or other academic purposes.

For example, the university sold the 79-acre Antelope Valley agricultural field station in Los Angeles County because of budget cuts and a diminished need for agricultural research in the Antelope Valley. The property was sold to the Antelope Valley Resource Conservation District. The university also sold the 125-acre Sawyer Trinity Alps Reserve, which was a gift to the university, because the property is remote and was not being used. The U.S. Forest Service purchased the property.

The university sold a 59-acre storage facility in Richmond to the City of Richmond to accommodate the development of a container shipping port. The university used the proceeds from the sale to purchase two storage facilities in the San Francisco area. Finally, the university exchanged the 1,280-acre Sugar Loaf Mountain Corporation parcel for a 360-acre parcel that was added to the NLWRS.

III

UNIVERSITY PROPERTY NOT USED FOR ACADEMIC PURPOSES

University property is designated as academic (main campuses, field and research stations, agricultural field stations, and NLWRS lands) and nonacademic (endowment properties). However, some properties designated as academic are not currently used for academic purposes. In this section, we describe property that is not used for academic purposes or for student or faculty housing, and we discuss the purposes for which the property is being used.

The university owns property, acquired before 1976, that was originally intended for academic use but that is not currently used for that purpose. Some of this property was formerly used for academic purposes but is no longer so used. Other property that was acquired for academic use has never been put to that use. The university has plans to place some of its currently unused property into an academic use. For other unused property, however, the university does not currently have such plans. Some of the property is either not suitable for academic use or is being retained because of utilitarian, historical, or aesthetic value. In some instances, property that is not suitable for construction is nevertheless currently being used for research or teaching

purposes. Finally, the university owns endowment property that is not used for academic programs, but that produces income for the university. On the following pages, we discuss three types of university property not currently in academic use: property not planned for an academic use in the future, property reserved for some future academic need, and endowment property.

Property Not Currently Designated for an Academic Use

Each University of California campus prepares a comprehensive Long Range Development Plan (LRDP) for its campus. The LRDP is a document that expresses university policy on proposed future development of a campus, outlying areas, and field stations. The LRDP, which forecasts anticipated growth and resultant campus development for about 10 to 15 years, also projects campus land use. The LRDP details current land use on each campus and identifies campus areas that are unsuitable for development, lands designated as campus inclusion areas, and other campus properties not currently used for academic programs.

Areas Unsuitable for Development

Although the university does not have a comprehensive list of property that campuses consider unsuitable for development, university officials provided examples of such

property at several campuses. For example, the university owns a road that extends from the UC San Diego campus to a university-owned beach. This road is used for access by pedestrians, city emergency vehicles, and local residents. Since this road provides the only access to the beach for a distance of seven miles, it is essential that it be retained in its current use.

At UC Santa Cruz, the university owns considerable land areas on which structures would be either difficult to construct or undesirable. UC Santa Cruz has designated parts of the campus as natural resource areas. These areas are preserved because they contain representative plant and animal species or important historical and archaeological sites.

Portions of UC Santa Barbara's campus are low-lying flood plain areas and are therefore designated as natural open space and wetlands. Although these areas are not suitable for development, the campus is still able to use them for biological research because they contain many species of birds and other wildlife.

Inclusion Areas

Campus inclusion areas are also university properties neither currently in an academic use nor planned for an academic use in the future. However, inclusion areas are suitable for development for uses that are consistent with the mission of the university. Six of the nine campuses have designated inclusion areas covering 802 acres. According to the regents' policy on inclusion areas, which is included in the bylaws of the regents, the Treasurer of the Regents is responsible for administering campus inclusion areas under the control of the regents.

The regents purchased the first inclusion area lands in 1964 from the Irvine Company to supplement other lands donated for the UC Irvine campus. The university has not yet prepared formal plans for utilizing UC Irvine's inclusion areas. However, since use of inclusion areas at UC Irvine or at any of the other campuses must be consistent with the mission of the university, acceptable uses might include student or faculty housing, conference centers, research and development parks, shopping areas, or student cooperatives.

Other inclusion area lands have been placed in similar uses. For example, in 1970, the university leased a piece of land adjacent to the UC Berkeley campus to the student

cooperative association for student housing; this land was designated as an inclusion area. In 1979, the regents approved designation of a portion of the UC San Diego campus as an inclusion area for development as a conference center, and, in 1981, the regents approved a second inclusion area at UC San Diego to be developed for housing and related uses. Table 3 below summarizes the current or intended uses of university campus inclusion areas.

TABLE 3

UNIVERSITY OF CALIFORNIA
CAMPUS INCLUSION AREAS

Campus	Current or Intended Use	Acres
Berkeley	Student housing	1.5
Davis		
Aggie Villa	Planning for use is underway	15.0
Russell Boulevard Property	To be leased for the development of student housing	23.0
Irvine	Planning for use is underway	510.0
Riverside	Student housing	6.7
San Diego	Portion to be leased for housing and related purposes	34.0
Santa Cruz	Planning underway for faculty housing and a research and development park	212.0
Total		802.2

Other Property Not Used
for Academic Programs

The university also owns property originally acquired for academic use that has been withdrawn from academic use or that has never been put to the intended academic use. One parcel no longer used for academic programs is the UCLA engineering field station. This parcel, purchased in 1965, was at one time used for applied research on noxious elements. At the time this site was chosen, it was remote and unrestricted by surrounding developments. Because of program changes and because of recent residential development adjacent to the property, the land is no longer used as an engineering field station.

An example of property that was never put to its intended academic use is a parcel adjacent to UC Berkeley's married student housing complex, located several miles from campus. This property was acquired in 1963 as a possible site for a medical school connected with the UC Berkeley campus. A medical school was never established at Berkeley, but this property could eventually serve as an expansion of UC Berkeley's married student housing complex.

Another example of property purchased for academic use but not currently used for that purpose can be found at UC San Diego, where the university owned 132 acres adjacent to

the San Diego campus. Although this property was purchased in 1967 for academic purposes, only a portion is currently used for academic programs. The university placed part of this property into the Natural Land and Water Reserves System and uses another part for the chancellor's residence. The university sold some of the remainder and has designated 24 acres as an inclusion area. Approximately 28 acres of the original purchase remain unused.

Properties Reserved for
Future Academic Need

Some university property not in an academic use is currently in an "academic reserve" status. As projects are added to the university's capital improvement program, certain properties are identified as likely building sites and are designated as academic reserve properties. While in many cases these areas are not part of specific campus building proposals, the university considers these areas essential for the future growth of the institution.

At the UC San Diego Scripps Institution of Oceanography, for example, the university has designated several areas as "academic reserve." One of these areas will be used for development of an Oceanographic Engineering Program. The UC Santa Cruz campus has also reserved several areas for future academic use. Although UC Santa Cruz foresees

a minimal amount of construction in the next ten years, the campus Long Range Development Plan identifies 12 potential sites as "developable" for academic use.

University Endowment Property

As discussed earlier, endowment property is property that has been donated to the university. University endowment property is not typically used for academic programs but is instead usually either sold or leased for income. The income from endowment property does support various university programs, however. In the majority of cases, donors designate a particular academic program that is to benefit from any proceeds resulting from the use of their gifts. In other instances, donors do not place restrictions on how the university allocates proceeds from the sale or lease of the properties. In these instances the university determines which academic programs will benefit. The Treasurer of the Regents is responsible for managing endowment properties so that a reasonable return of income is assured.

As noted earlier, endowment property is sometimes put to an academic use. For example, one gift property was recently turned over to UC Davis to be used as an Indian lore library. Another endowment property, located in the City of

Santa Cruz, is being used by UC Santa Cruz to house federal grant programs. Several other gift properties have been turned over for use by the Natural Land and Water Reserves System.

IV

REVENUES REALIZED BY COUNTIES FROM POSSESSORY INTEREST TAX ON UNIVERSITY PROPERTY

The California Constitution exempts from property taxation all property used exclusively for state universities. Consequently, all property owned by the University of California, whether used for academic programs or not, is exempt from the usual property taxes. However, because counties assess a possessory interest tax on university property leased to private individuals, California counties do not totally forego revenues because of the tax-exempt status of university property. Nevertheless, the tax yield from possessory interest tax differs from the tax yield that would result if the property were privately owned. For fiscal year 1981-82, those leasing university property in counties which responded to our review paid an estimated $100,000 in possessory interest taxes. Had this property been taxed as though privately owned, the counties would have collected at least an additional $422,200 in tax revenue.*

* In Alameda County, private interests paid about $39,000 in possessory interest taxes on university property; however, the county was unable to provide us with the estimated property taxes that these properties would have generated had they been privately owned. As a result, university property in Alameda County that generates possessory interest tax is not included in our comparison.

Section 107.1 of the Revenue and Taxation Code and Title 18 of the California Administrative Code require that a possessory interest tax be assessed on nontaxable, publicly owned real property when it conveys private beneficial use. Possessory interest includes either the possession or the right to possession of real estate on which title is held by a tax-exempt public agency such as the university. The State Board of Equalization issues regulations to counties on how to compute possessory interest tax on a lease. Property leased from the university, such as industrial, commercial, or residential property, is subject to a possessory interest tax.

County assessors compute the possessory interest tax to be assessed on university property located in their counties. Each year the university provides the appropriate county tax assessors with a report of leases. In determining the amount of possessory interest tax, county assessors consider the fair market value of the property, the anticipated term of possession, the yield rate or rate of return on investment, the current market value of the property, and improvements on the property. The possessory interest tax is paid to the county by the private interest leasing the university property. The following examples illustrate how county assessors may compute possessory interest tax on university property.

In Monterey County, 737 acres are leased from the university for farming. The possessory interest tax on this ten-year lease was $9,399 in fiscal year 1981-82. The possessory interest tax was computed by multiplying the value of the possessory interest ($855,000) by the tax rate (1.09925 percent).

A residence owned by the university in San Diego County is leased out on a month-to-month basis. In fiscal year 1981-82, the possessory interest tax on this property was $21.40. This amount was computed by taking the 1981 value of the possessory interest ($1,963) and multiplying it by the tax rate (1.09145 percent). Had this property been taxed as though it were privately owned, the assessed value of this property would have been approximately $60,000 and the tax yield would have been approximately $655.

The counties provided data on the amount of possessory interest tax that was paid to them on university property. With the exception of Alameda County, they also estimated the amount of property tax that they would have collected on the property if the property had been taxed as though privately owned. Comparing the two amounts shows that counties received considerably less tax revenue on university property subject to the possessory interest tax than they would have received had the property been taxed as though in private

ownership. For example, the university leased a dairy farm in Sacramento County to a private operator for a five-year period. The possessory interest tax paid on this property in fiscal year 1981-82 was $576. If the property had been taxed as though privately owned, the estimated property tax would have been $1,989, a difference of $1,413. The university also owns a warehouse in San Mateo County. In fiscal year 1981-82, the lessee of the warehouse paid possessory interest taxes of $853. Had this property been privately owned, the taxes would have been about $19,065.

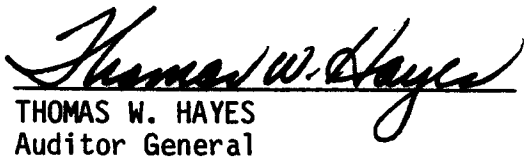
However, for leases of 35 years or longer, the lessee pays a possessory interest tax that approximates the amount that would have been paid if the property were in private ownership. For example, the university owns property in San Francisco that is being leased out on a 75-year lease. In fiscal year 1981-82, the lessee paid possessory interest taxes of $19,566. If the property had been taxed as though privately owned, the tax on this property would have been $22,207.

The difference between the amount of possessory interest tax paid to counties on university property and the amount of property tax counties would receive if university property were taxed as though privately owned is significant. In fiscal year 1981-82, the estimated total possessory interest tax paid to the counties on university property was $100,000.

(As mentioned earlier, this total does not include Alameda County.) If the property had been in private ownership, the property tax yield would have resulted in at least $422,200 in additional tax revenues collected by the counties. (Appendix D lists and compares for each county in which university property is located the amount of possessory interest tax yield on university property and the amount of property tax that would have accrued to the counties if the university property were taxed as though privately owned.)

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Date: December 30, 1982

Staff: Thomas A. Britting, Audit Manager
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UNIVERSITY OF CALIFORNIA SYSTEMWIDE ADMINISTRATION

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Office of the President

BERKELEY, CALIFORNIA 94720

December 1, 1982

Mr. Thomas W. Hayes, Auditor General
State of California
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

This will acknowledge your letter of November 23rd and the draft report setting forth the results of the review of University of California property management.

I am pleased to note that the review finds that, in the acquisition of real property, we are generally in compliance with University and State regulations governing such activity. We have no other comments.

We appreciate the opportunity to review this draft and will be pleased to respond to any specific questions concerning the University's management of real property.

Sincerely,

David S. Saxon
President

cc: Special Assistant Lowell Paige

ACADEMIC PROPERTY OWNED BY THE UNIVERSITY OF CALIFORNIA IN 1976 AND IN 1982 (COUNTY LOCATION IN PARENTHESIS FOLLOWING NAME)

Campus	Acres of Land in 1976			Acres of Land in 1982		
	Main	Outlying[a]	Total	Main	Outlying[a]	Total
Berkeley	1,250	3,005	4,255	1,250	2,722	3,972
Davis	3,579	55	3,634	3,579	478	4,057
Irvine	1,703	--	1,703	1,703	32	1,735
Los Angeles	411	861	1,272	411	926	1,337
Riverside	1,101	5,497	6,598	1,102	9,703	10,805
San Diego	1,363	682	2,045	1,310	764	2,074
San Francicso	107	--	107	107	6	113
Santa Barbara	815	6,007	6,822	751	6,195	6,946
Santa Cruz	2,001	3,982	5,983	2,001	3,982	5,983
Subtotal	12,330	20,089	32,419	12,214	24,808	37,022
Field Station, Research Station, Laboratory						
Antelope Valley Field Station (Los Angeles)[b]			79			0
Bodega Marine Laboratory (Sonoma)			24			24
Blodget Forest (El Dorado)			2,762			2,762
Deciduous Fruit Field Station (Santa Clara)			17			17
Hopland Field Station (Mendocino/Lake)			5,317			5,317
Howard Forest (Mendocino/Lake)			83			83
Imperial Valley Field Station (Imperial)			255			255
Kearney Horticultural Field Station (Fresno)			269			269
Lindcove Field Station (Tulare)			171			171
Meadow Valley Field Station (Plumas)			80			80
Napa Experimental Vineyard (Napa)			40			40
San Andreas Geophysical Observatory (San Benito)			4			4
Sierra Foothill Range Field Station (Yuba)			5,531			5,531
South Coast Field Station (Orange)			200			200
Tulelake Field Station (Siskiyou)			17			17
West Side Field Station (Fresno)			321			321
Whitaker Forest (Tulare)			320			320
Wolfskill Horticultural Station (Solano)			154			154
Subtotal			15,644			15,565
University Extension						
Arrowhead Conference Center (San Bernardino)			39			39
Downtown Extension Center, Los Angeles (Los Angeles)			1			1
San Francisco Extension Center (San Francisco)			6			6
Subtotal			46			46
Other University Properties						
Congressional Lands (Kern, Lake, Lassen, Mendocino, Nevada, San Mateo)			480			480
Hastings College of the Law (San Francisco)			2			0
San Francisco Art Institute (San Francisco)			2			2
Subtotal			484			482
Total			48,593			53,115

[a] In this table, "outlying land areas" for each campus includes university properties that are part of the Natural Land and Water Reserves System.

[b] The university sold the Antelope Valley Field Station in 1978.

Source: Treasurer of the Regents of the University of California.

APPENDIX B

UNIVERSITY OF CALIFORNIA
FIELD AND RESEARCH STATIONS, 1982

Property	County	Current Use	Acres
Blodgett Forest	El Dorado	Experimental Forest	2,762
Bodega Marine Laboratory	Sonoma	Marine Research	24
Howard Forest	Mendocino	Forestry demonstration projects. Part of this property is leased to the California Department of Forestry	83
Meadow Valley Field Station	Plumas	Field classes for forestry students and forestry research	80
Whitaker Forest	Tulare	Forestry research	320
Napa Experimental Vineyard	Napa	Research in viticulture	40
San Andreas Geophysical Observatory	San Benito	Earthquake monitoring	4
Wolfskill Horticultural Station	Solano	Agricultural research	154
Total			3,467

APPENDIX C

UNIVERSITY OF CALIFORNIA
AGRICULTURAL FIELD STATIONS, 1982

Property	County	Acres
Deciduous Fruit Field Station	Santa Clara	17
Hopland Field Station	Mendocino/Lake	5,317
Imperial Valley Field Station	Imperial	255
Kearney Horticultural Field Station	Fresno	269
Lindcove Field Station	Tulare	171
Sierra Foothill Range Field Station	Yuba	5,531
South Coast Field Station	Orange	200
Tulelake Field Station	Siskiyou	17
West Side Field Station	Fresno	321
Total		12,098

APPENDIX D

ESTIMATED POSSESSORY INTEREST TAX YIELD
ON UNIVERSITY OF CALIFORNIA PROPERTY COMPARED TO ESTIMATED
TAX YIELD IF UNIVERSITY PROPERTY HAD BEEN PRIVATELY OWNED,
FISCAL YEAR 1981-82

County	Tax Yield Under Possessory Interest Tax	Tax Yield Under Private Ownership	Difference
Alameda[a]	[$ 39,087]		
Contra Costa	399	$ 2,230	$ 1,831
Kern	66	550	484
Los Angeles	4,512	31,100	26,588
Monterey	9,399	12,586	3,187
Orange	436	275,493	275,057
Riverside	2,589	12,925	10,336
Sacramento	5,200	11,715	6,515
San Diego	2,454	3,110	656
San Francisco	47,360	55,650	8,290
San Mateo	853	19,065	18,212
Santa Barbara	1,918	16,234	14,316
Santa Clara	1,249	3,079	1,830
Santa Cruz	11,511	12,653	1,142
Solano	1,228	23,219	20,397
Sonoma	1,382	15,046	13,664
Yolo	9,684	27,797	18,113
Total	$100,240	$522,452	$422,212

[a] Alameda County was not able to provide us with an estimate of the tax yield under private ownership. Therefore, for purposes of this comparison, the amount of possessory interest tax paid to Alameda County is not included in the total.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps