

The Regents of the University of California

**COMMITTEE ON FINANCE**

May 20, 1999

The Committee on Finance met on the above date at Covell Commons, Los Angeles campus.

Members present: Regents Atkinson, Bagley, Bustamante, Connerly, Davies, Hopkinson, S. Johnson, Khachigian, Leach, Lee, Miura, Parsky, and Willmon; Advisory member Taylor

In attendance: Regents Espinoza, O. Johnson, Kozberg, Lansing, Montoya, and Preuss, Regents-designate Pannor and Vining, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, Hershman, and Hopper, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, and Vanderhoef, Laboratory Directors Browne and Tarter, and Recording Secretary Bryan

The meeting convened at 2:50 p.m. with Committee Chair S. Johnson presiding.

1. **CONSENT AGENDA**

A. ***Amendment of the Budget for Capital Improvements and the Capital Improvement Program***

The President recommended that the Committee concur with the recommendation of the Committee on Grounds and Buildings that the 1998-99 Budget for Capital Improvements and the 1998-2001 Capital Improvement Program be amended to include the following project: Santa Cruz: C o r e  
W e s t  
P a r k i n g  
S t r u c t u r e  
e.

B. ***Establishment of Student Facilities and Campus Enhancements Fee, Davis Campus***

The President recommended that, effective fall quarter 1999, all registered students at the Davis campus, with the exception of students in the School of Law, be assessed a mandatory Facilities and Campus Enhancements Fee as follows:

- (1) Effective fall quarter 1999, \$5 per student per quarter.

- (2) Effective fall quarter 2000, an increase from \$5 per student per quarter to \$11 per student per quarter.
- (3) Effective fall quarter 2003, an increase from \$11 per student per quarter to \$126 per student per quarter.

Thereafter, the fee would be subject to an annual adjustment for inflation.

C. ***Establishment of Law Student Access and Facilities Fee, Davis Campus***

The President recommended that, effective fall semester 1999, a mandatory law student access and facilities fee be assessed all students enrolled in the School of Law at the Davis campus, as follows:

- (1) Beginning fall semester 1999, \$15.50 per student per semester.
- (2) Effective fall semester 2000, an increase from \$15.50 per student per semester to \$27 per student per semester.
- (3) Effective fall semester 2001, an increase from \$27 per student per semester to \$30 per student per semester.
- (4) Effective fall semester 2002, an increase from \$30 per student per semester to \$33 per student per semester.
- (5) Effective fall semester 2003, an increase from \$33.00 per student per semester to \$183.50 per student per semester.

Thereafter, the fee would be subject to an annual adjustment for inflation.

D. ***Increase in Associated Students Fee, Davis Campus***

The President recommended that, effective fall quarter 1999, the Associated Students Fee, Davis campus, be increased from \$23.50 per undergraduate student per quarter to \$35 per undergraduate student per quarter.

E. ***Increase in Nursing Student Council Fee, San Francisco Campus***

The President recommended that, effective fall 1999, the Nursing Student Council Fee at the San Francisco campus be increased from \$2 per student per quarter to \$5 per student per quarter.

F. ***External Financing for the Purchase of Land Underlying UCLA Wilshire Center Office Building, Los Angeles Campus***

The President recommended that:

- (1) The Treasurer be authorized to obtain external funding in an amount not to exceed \$8.1 million to finance the acquisition of the leased fee interest in the land underlying the UCLA Wilshire Center office building, 10920 Wilshire Boulevard, Los Angeles, which building was acquired by The Regents in 1993, subject to the following conditions:
  - a. Repayment of the debt shall be from the Los Angeles campus' share of the University Opportunity Fund; and
  - b. The general credit of The Regents shall not be pledged.
- (2) The Officers of The Regents be authorized to provide certification that interest paid by The Regents is exempt from federal income taxation under existing law and to indemnify lenders in this respect.
- (3) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

Regent Hopkinson asked for more information about student fees. President Atkinson responded that he would send to all Regents detailed information on fees at all campuses. He noted that there were 5 percent decreases in fees in this year's and last year's budgets and that the University has not increased fees in five years.

Regent Bagley recalled that the State used to provide about 70 percent of the University's general fund. Today it provides about 23 percent. He hoped that future State budget surpluses would be used for capital outlay and infrastructure.

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

2. **PROGRESS REPORT ON THE 1999-2000 STATE BUDGET**

Vice President Hershman reported that when the Governor put together his budget in January, it was estimated that real economic growth for the country would be 1.9 percent. The latest projection is for a 3.6 percent growth rate. The State is projecting a surplus of \$1.6 billion in the current budget year and \$2.7 billion for the 1999-2000 budget. The Governor has suggested that about half of the additional money that is available be used to build up reserves or infrastructure.

Mr. Hershman then addressed the Governor's proposal and the Legislature's actions concerning it. He recalled that the University's working budget is based upon a compact with the Governor. The Governor's January budget of \$95.9 million did not fully fund the University's budget request. The May revision, however, added \$51 million of permanent money and \$7.2 million to fund an additional 900 students. The Governor also provided for some new initiatives. There is a 5 percent fee reduction for California resident undergraduates, a fee reduction for California resident graduate academic students, \$5 million for the Industry/University Cooperative Research Program, \$2 million for Cooperative Extension, and \$400,000 for Merced County to support campus planning. The total increase in permanent funding is \$205 million, or 8.4 percent.

Mr. Hershman reported the results of spring Legislative hearings. He commented that during committee actions, both houses of the Legislature agreed to the Governor's proposal. The Senate augmented the Governor's proposal by \$51 million, including \$35 million in permanent money for deferred maintenance, libraries, instructional equipment, and technology. It also put in \$2.5 million for the digital library and \$5 million for an internet proposal. The Assembly had limited action on the budget.

Mr. Hershman noted that medical education received about \$40 million in support, plus \$5 million to support the UCSF Stanford clinical services merger, extended for the next three years.

Regent Connerly believed that continually reducing fees creates an artificial budget. When the economy declines, fees will have to be raised disproportionately in order to make up the deficit. He noted that the \$150 million budget for outreach was barely increased.

Regent Bagley asked about the State Assembly education bond issue. Mr. Hershman explained that the four-year bond issue of \$210 million per year is in its second year.

Regent Hopkinson asked what role the Regents have in establishing guidelines at the beginning of the budget process. President Atkinson explained that the process begins in October. The compact is a long-term arrangement with the Governor that establishes a minimal level for core funding. He indicated that he would send her information on the budget process.

Regent Espinoza asked whether the University will continue to receive the money it would have received without the 5 percent fee reduction. Mr. Hershman replied that not only will it continue to receive the money, it will also retain its current level of financial aid.

Regent Preuss was pleased that enrollment funds were increased to support additional students, but he asked how the teaching infrastructure will be increased to accommodate them. President Atkinson noted that 20 years ago the University's ratio

of students to faculty was 14:1; ten years ago it was 17:1; now it is close to 20:1. The ratio at comparable private universities is 10:1. It is hoped that there is sufficient money in this budget to return the ratio to 18.5:1. The University is seeking to include in its compact with the Governor sufficient support to enable the ratio eventually to be lowered to 17:1. Because of the high cost, however, it is likely that advancement toward this goal will have to be phased.

Regent Willmon noted that the increase in the amount available for enrollment growth was generous. He wondered whether it will be sufficient. Mr. Hershman acknowledged that actual enrollment growth has always exceeded projections.

### 3. **EXTERNAL FINANCING FOR MULTIPURPOSE SCIENCE AND TECHNOLOGY BUILDING, IRVINE CAMPUS**

The President recommended that:

- A. Funding for the Multipurpose Science and Technology Building, Irvine campus, be approved as follows:

<u>Fund Source</u>	<u>Amount</u>
External financing	\$7,847,000
Campus funds	<u>2,000,000</u>
Total	\$9,847,000

- B. The Treasurer be authorized to obtain external financing in an amount not to exceed \$7,847,000 to finance a portion of the construction of the Multipurpose Science and Technology Building, Irvine 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 Irvine campus' share of the University Opportunity Fund.
  - (3) The general credit of The Regents shall not be pledged.
- C. 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.
- D. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

The Committee was informed that the proposed building will provide 29,664 assignable square feet (asf) of office and dry laboratory space and approximately 11,660 asf for low-intensity wet laboratories and support space. Initial occupants of this building will be from the Schools of Biological Sciences, Physical Sciences, and Engineering, as well as the Department of Information and Computer Science. The building will continue to address the needs of successive groups as the initial occupants move out into long-term space assignments.

In the five-year period from 1997-98 to 2003-04, overall campus growth is projected to be 22 percent, with a large proportion of this growth slated to occur in the sciences. Although UCI's State-funded capital program will address some of the needs generated by this growth, State funding is inadequate to keep pace with enrollment increases. Based on the California Postsecondary Education Commission's space guidelines, even with completion of all the projects included in the 1999-2004 State Capital Program, the campus will have a deficit of approximately 240,000 asf by 2003-04. The Multipurpose Science and Technology Building will begin to address these needs by providing near-term expansion space for UCI's programs in the sciences. Tenants will move into permanent, State-funded facilities over time. Vacated space in the Multipurpose Science and Technology Building will be assigned to programs with subsequent growth.

The Multipurpose Science and Technology Building will be located in the Physical Sciences Quad. The proposed site is in conformance with the campus Long Range Development Plan.

#### Financial Feasibility

The total project cost for the Multipurpose Science and Technology Building is to be funded from a combination of external financing and campus funds. Based on a debt of \$7,847,000 at 6.5 percent interest amortized over 15 years, the average annual debt service will be approximately \$835,000. The pledged source of repayment for the debt will be from the Irvine campus' share of the University Opportunity Fund.

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

4. **EXTERNAL FINANCING FOR FACULTY LEVERING HOUSING RENOVATION, LOS ANGELES CAMPUS**

The President recommended that:

- A. Funding for the Faculty Levering Housing Renovation project, Los Angeles campus, be approved as follows:

<u>Fund Source</u>	<u>Amount</u>
External financing	\$5,300,000
University of California Housing System Net Revenue Fund	<u>400,000</u>
Total	\$5,700,000

- B. The Treasurer be authorized to obtain external financing not to exceed \$5.3 million to finance a portion of the construction of the Faculty Levering Housing Renovation project, Los Angeles 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) As long as the debt is outstanding, the University of California Housing System fees for the Los Angeles campus shall be established at levels sufficient to meet requirements of the University of California Housing System Revenue Bond Indenture and to provide excess net revenues sufficient to pay debt service and meet the related requirements of the proposed financing.
- (3) The general credit of The Regents shall not be pledged.

- C. The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.

- D. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

It was recalled that the proposed project involves renovations to a campus-owned apartment building in order to correct significant water intrusion problems that have begun to affect the structural integrity of and ability to inhabit the building. Water intrusion, which has troubled this facility for many years, currently occurs through the roofs, balconies, terraces, garage walls, site planters, exterior walls, doors, and windows. Partial corrections have been made over time, but a full renovation is necessary to extend the life of the facility.

The building is a 122,390-gross-square-foot, eight-story wood frame structure built into a hillside, with three levels of subterranean parking. It is located on Levering Avenue within the Campus Bridge Zone bounded by a University apartment building to the south, non-University residential properties to the north, and a service alley to the west. The building consists of 72 rental units occupied by UCLA faculty.

This apartment building is an integral component of a multi-faceted program designed to assist the UCLA academic community with the recruitment of outstanding junior faculty. To compete successfully with other institutions, it is critical that the UCLA campus provide an inventory of contemporary rental units at below-market rates. The Faculty Levering apartments have been serving this need since 1983. Once completely renovated and refurbished, these 72 units will again be offered to new junior faculty at below-market rates to assist them with their transition to the relatively high cost of living in the Los Angeles basin. The Faculty Levering facility is part of the Housing System (UCHS); however, for budgeting, operating, and financial reporting purposes, the Levering facility is treated as a stand-alone operation.

The scope of work includes removal and replacement of the existing roof, exterior siding, all building windows, the garden terrace patio, and the building's perimeter stepped planters. The work also includes related general building repairs, fire and life safety upgrades, ADA compliance improvements, and replacement of dwelling unit appliances and floor coverings. No change to building use, site, unit mix, or quantity will result from this project.

The building will be vacated for approximately one year in order to accomplish this work. All residents have been notified, and University relocation assistance plans are in place to provide alternate housing for current residents during renovation.

#### Financial Feasibility

The total project cost is to be funded from a combination of external financing and UCHS Net Revenues. Based on a debt of \$5.3 million at 6.5 percent interest amortized over 27 years, the estimated annual debt service is \$421,000. Although repayment of the debt is pledged from net operating revenues from the Los Angeles campus' UCHS facilities, the faculty-housing component of UCHS is operated as stand-alone facilities from a budgeting, financial, and reporting basis. Payment of the annual debt service (\$421,000) will be made by increasing current faculty rents in the Levering facility by approximately \$200 a month, to \$1,417 (slightly below local market rate).

For purposes of compliance with the California Environmental Qualities Act of 1970 and Amended University of California Procedures for Implementation of CEQA, this project has been reviewed and classified as categorically exempt under *Class 1: Existing Facilities*.



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

5. **EXTERNAL FINANCING FOR CORE WEST PARKING STRUCTURE, SANTA CRUZ CAMPUS**

The President recommended that, subject to amendment of the Budget for Capital Improvements and the Capital Improvement Program to include the Core West Parking Structure, Santa Cruz campus project:

- A. Funding for Core West Parking Structure, Santa Cruz campus, be approved as follows:

<u>Fund Source</u>	<u>Amount</u>
External financing	\$11,078,000
Parking reserves	<u>250,000</u>
Total	\$11,328,000

- B. The Treasurer be authorized to obtain external financing not to exceed \$11,078,000 to finance a portion of the construction of the Core West Parking Structure, Santa Cruz 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) As long as the debt is outstanding, parking fees for the Santa Cruz campus shall be established at levels which, together with other related income, will be sufficient to provide excess net revenues to pay the debt service and to meet related requirements of the proposed financing.
- (3) The general credit of The Regents shall not be pledged.

- C. 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.

- D. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

It was recalled that the Santa Cruz campus currently relies on approximately 5,000 parking spaces to accommodate the needs of approximately 11,000 students and approximately 3,000 employees. While the campus has successfully mitigated parking demand during the past ten years through the promotion of measures such as ride sharing, transit use, and bicycling, the availability of parking in certain areas of the campus is a significant problem.

One of these areas is the natural sciences area, where three new buildings were added over the last ten years, bringing additional commuters to the area while the overall number of parking spaces in the area remained essentially the same. Two additional new buildings are planned for construction in this area during the next five years. These buildings will reside on the site of existing parking lots, reducing parking capacity by 127 spaces.

Parking conditions in the area are such that peak use of the 625 parking spaces available often approaches 100 percent. One lot with attendant parking reached 122 percent of capacity in winter 1998. Dedicated special use space is not used in the same proportion as permit parking and drove combined average utilization to 92 percent in winter 1998. In order to meet existing and future demand for parking, replace parking soon to be lost to new development, and improve visitor parking and navigation, the campus proposes to construct its first multilevel parking structure. A site has been identified that takes advantage of existing pedestrian routes and transit services and serves 12 existing and two planned facilities in the west campus core.

The structure and related access improvements will be located near the southeast corner of Heller Drive and McLaughlin Drive on an existing parking lot and a portion of another lot, displacing 83 spaces. It will serve faculty, staff, graduate students, and visitors. With improvements to pedestrian pathways and shuttle stops, the proposed structure also will accommodate parking demand for major special events staged elsewhere on campus.

#### Project Description

The Core West Parking Structure project will provide approximately 500 parking spaces by fall 2000. The six-level structure will be approximately 178,800 gross square feet, with the first level constructed mostly below grade. The project will also include related access improvements to shuttle stops on Heller Drive and Steinhart Way and pedestrian paths to Kresge College, Kerr Hall, and the natural sciences area.

Financial Feasibility

It is proposed that the project be funded with a combination of external financing and parking reserves. Based on a debt of \$11,078,000 amortized over 27 years at 6.5 percent interest, the estimated annual debt service is \$881,000 and annual operating expenses are \$1,693,000. The estimated annual Santa Cruz Parking System revenues in the first full year of operation (2000-01) are \$3,222,000. This assumes that close-in parking fees increase at all parking sites by \$10 per month in 1999-2000 and by another \$10 per month in 2000-01.

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

[For speakers' comments, refer to the minutes of the afternoon meeting of the Committee of the Whole.]

**6. REPORT OF THE GENERAL COUNSEL**

General Counsel Holst presented his **Report of New Litigation**. By this reference the report is made an official part of the record.

The meeting adjourned at 3:20 p.m.

Attest:

Secretary