

The Regents of the University of California

**COMMITTEE ON GROUNDS AND BUILDINGS  
COMMITTEE ON FINANCE**

July 18, 2002

The Committees on Grounds and Buildings and Finance met jointly on the above date at UCSF–Laurel Heights, San Francisco.

Members present:     Committee on Grounds and Buildings: Regents Atkinson, Hopkinson, Johnson, Kozberg, Ligot-Gordon, Lozano, Marcus, Moores, and Sainick  
                          Committee on Finance: Regents Atkinson, Connerly, Hopkinson, Lee, Ligot-Gordon, Lozano, Montoya, Moores, Parsky, Preuss, and Sayles

In attendance:       Regents Davies, Lansing, and Terrazas, Regents-designate Bodine and Seigler, Faculty Representatives Binion and Viswanathan, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gurtner, and Hershman, Chancellors Berdahl, Carnesale, Cicerone, Córdova, Dynes, Tomlinson-Keasey, Vanderhoef, and Yang, Executive Vice Chancellor Kelly representing Chancellor Bishop, Vice Chancellor Michaels representing Chancellor Greenwood, and Recording Secretary Bryan

The meeting convened at 9:02 a.m. with Committee on Grounds and Buildings Chair Marcus presiding.

1.     **APPROVAL OF MINUTES**

Upon motion duly made and seconded, the minutes of the meeting of March 14, 2002 were approved.

2.     **STATUS OF 2002-03 BUDGET FOR CURRENT OPERATIONS AND THE BUDGET FOR CAPITAL IMPROVEMENTS, AND POLICY CONSIDERATIONS GUIDING THE DEVELOPMENT OF THE 2003-04 BUDGET**

Vice President Hershman commented on the status of the 2002-03 budget, which had not been finalized, noting that the Senate had approved AB 475, which is the bill containing the Senate version of the Budget Act, as well as accompanying trailer bills necessary to implement the budget. The Senate version of the budget generally reflects the work of the budget conference committee; no changes were made to the conference version of the University's budget. The Assembly passed neither a budget bill nor most of the trailer bills.

As has been reported to The Regents throughout the winter and spring, the State's deteriorating fiscal situation led the Governor to propose mid-year base budget reductions for 2001-02 and to reduce funding for the Partnership and the University's base budget in both his January and May Revision budget proposals for 2002-03. The Senate version of the budget adopts the Governor's budget essentially as proposed in January and May, with the following exceptions:

- \$25 million was added for outreach programs, including \$21.7 million to restore programs that the Governor proposed to eliminate or significantly decrease in the May Revision, \$729,000 to expand Central Valley Outreach (\$379,000) and Graduate and Professional School Outreach (\$350,000), and \$2.5 million to implement Dual Admissions;
- an additional nonresident tuition increase was proposed for undergraduates only, who would pay 6 percent above the 4 percent already proposed in the Regents' Budget, with the revenue used to help fund the restoration and expansion of outreach;
- budget language related to the 10 percent budget reduction (\$32 million) for research programs was revised to require an across-the-board cut for individual research programs, rather than providing the University with flexibility to implement cuts within a range of 6 percent to 30 percent;
- \$550,000 previously provided for the Institute for Global Conflict and Cooperation was eliminated; and
- \$857,000 in funding for the California College of Podiatric Medicine was eliminated in recognition of the end of the affiliation agreement between it and the San Francisco campus.

The Senate version of the budget contains the following changes in State funding for the University's 2002-03 budget:

- a 1.5 percent increase to the basic budget, instead of the 4 percent called for in the Partnership Agreement, to fund compensation, benefit, and other increases, including continuation costs for 2001-02 salary increases, merit salary increases for faculty and staff, a 6.7 percent increase in health benefit costs for faculty and staff, and a 2.5 percent price increase for nonsalary budgets;
- funding for 7,700 new FTE students based on the marginal cost of instruction;

- State support for summer instruction at the Davis campus;
- funding for maintaining new space that comes on line during the budget year;
- increases related to lease revenue bond payments; and
- annuitant health and dental benefit increases.

The budget also includes one-time funds of \$4 million for faculty start-up costs associated with the development of the Merced campus.

The budget does not contain funding for major Partnership components, including a cost-of-living adjustment for faculty and staff, cost increases for student fee-funded programs, and the additional 1 percent for core needs, including maintenance, instructional technology, instructional equipment, and libraries. With the 2002-03 budget as adopted by the Senate, based on the funding principles of the Partnership Agreement, the University's State-funded budget will be underfunded by \$237 million.

The budget also includes the following base budget reductions from both the Governor's January and May budget proposals:

- \$32 million for research programs, which is equivalent to a 10 percent reduction in State General Funds for research;
- \$17 million in financial aid to eliminate the "bonus" that was provided to financial aid in 1998-99 and 1999-2000 when student fees were reduced without a corresponding reduction in financial aid;
- \$15.3 million for the California Subject Matter Projects (\$4 million in January and an additional \$11.3 million in May), leaving a core budget of \$20 million;
- \$10 million for K-12 Internet connectivity (\$4.8 million was reduced in the January budget, and an additional \$5.2 million was eliminated in May), leaving \$22 million in the budget for this program;
- \$7.6 million from the 2001-02 budgeted level for outreach programs; and
- Elimination of \$56.9 million in State General Funds for the California Professional Development Institutes. The University is in the process of trying to negotiate contracts with individual K-12 schools and school districts to continue the operation of these programs using federal and State funds available in the K-12 budget for teacher professional development purposes. University staff are hopeful this can be accomplished in time to offer professional development training this summer.

The Governor had also proposed a one-time funding reduction of \$29 million for core needs, including deferred maintenance, libraries, equipment, and instructional technology, which was also included in the final Budget Act. He indicated in the May Revision that this cut is one time only and will be restored to the base as the 2003-04 budget is developed.

Going into the conference committee process, the Assembly and Senate versions of the budget contained different actions with respect to portions of the University's budget. The Assembly version of the budget had proposed the following:

- \$28.8 million in base budget reductions and revenue increases: an additional \$16 million reduction in research above the \$32 million proposed in the May Revise, \$2.4 million in administration, \$6 million for strengthening undergraduate education, and \$4.3 million related to a proposal to increase nonresident tuition for undergraduates by an additional 6 percent above the 4 percent increase already planned in the Regents' Budget, with the funding targeted to help solve the State's General Fund deficit;
- an augmentation of \$2.5 million to implement the Dual Admissions Program; and
- restoration of \$18 million in outreach funding eliminated in the Governor's January and May budget proposals.

The Senate version of the budget had essentially mirrored the Governor's Budget, except for restoring \$250,000 for UC ACCORD and \$1 million for Graduate and Professional School Outreach. It also had revised the Governor's proposed budget language related to the research cut to protect programs that are funded through line items in the budget from the \$32 million budget reduction proposed in the Governor's May Revise.

The conference committee approved a compromise package for UC's budget that rejected the Assembly's additional budget reductions of \$28.8 million from the Governor's January and May budget proposals and did the following instead:

- restored a total of \$18.1 million in funding for specified outreach programs, including the UC College Preparatory Initiative, Graduate and Professional Outreach, student-initiated outreach, UC ACCORD, the charter school on the San Diego campus, and Community and Education Resource Centers;
- provided a \$2.5 million augmentation for implementing the Dual Admissions program; and
- designated \$4.3 million in new revenue, to be generated from the proposal to increase nonresident tuition for undergraduate students by 6 percent above the

4 percent already proposed in the Regents' Budget for 2002-03, to fund additional restorations and expansions of existing outreach programs, including partial restoration of the funding for K-12 School-University Partnerships (\$3 million) and the ArtsBridge program (\$250,000), full restoration of the funding for Urban School Collaboratives (\$361,000), and additional funding for Graduate and Professional School Outreach (\$350,000) and Central Valley Outreach (\$379,000).

The final outreach package approved by the conference committee totals approximately \$25 million.

As noted above, other changes to the Governor's proposals contained in the Senate version of the budget include adoption of compromise budget language related to the research reduction ultimately approved in the final budget. The Governor had proposed a \$32 million reduction in the research budget, which was a 10 percent overall reduction to the total State General Funds provided for research. The Governor's budget language would have allowed the University flexibility to implement reductions for individual research programs within a range of 6 percent to 30 percent to achieve the \$32 million total. The conference committee compromise instead requires the 10 percent reduction to be implemented across the board, eliminating the University's flexibility to determine the amount of the reduction for each program.

If the Senate version of the budget is adopted, the University's State General Fund budget for 2002-03 will be \$3.224 billion.

### ***Capital Improvement Program***

It was recalled that at the January 2002 meeting, The Regents approved accelerated funding for the California Institutes for Science and Innovation and a number of critically needed enrollment growth projects with funds from State lease revenue bonds. This funding, in concert with previously approved projects to be funded from general obligation bonds, reflected essentially the Governor's January budget. If the Senate version of the budget is adopted, State funding authorized through the 2002 State Budget Act and two associated Assembly and Senate bills will provide \$626.7 million for capital improvement projects for the University, including changes from the amended Regents' budget request as approved by The Regents in January. The changes include the following: (1) an amendment to the scope and budget of the Rowland Hall Seismic Improvements project at the Irvine campus to reflect a new solution to the building's seismic deficiencies that also provides much needed space for the School of Physical Sciences; and (2) inclusion of a new project, the Sinsheimer Laboratories Fire Sprinklers project at the Santa Cruz campus, to address immediate life safety needs resulting from the January 11, 2002 fire in Sinsheimer Hall. Three projects included in the original 2002-03 Budget for Capital Improvements have been deferred: (1) Seismic Corrections-Thurman Laboratory project at the Davis campus;

(2) Electrical Distribution System Expansion, Step 6B project at the Los Angeles campus; and (3) Northern Regional Library Facility, Phase 3, a Universitywide project.

***Policy Considerations Guiding Development of the 2003-04 Budget***

*Operating Budget*

The State of California will face another year of financial difficulty in 2003-04. The Legislative Analyst estimates that the State will have a budget deficit of about \$8 billion to \$10 billion, assuming normal growth in State funds on the revenue side and a workload budget on the expenditure side, if no actions are taken to correct the imbalance between revenues and expenditures. Given the continuing financial turmoil associated with the State's fiscal situation, the University's budget request for 2003-04 should be limited to funding for its basic core budget under the Partnership; this means full funding of the Partnership Agreement in 2003-04 and ensuring no further base budget cuts. As a result, the University is currently planning to limit the 2003-04 budget request to the following:

- A 4 percent base budget adjustment, which is used primarily to fund salary, health and dental benefits, and other cost increases. Aside from avoiding further base budget reductions, funding for employee salaries and benefits will be the University's highest priority in 2003-04 and beyond. Data from the California Postsecondary Education Commission (CPEC) show that faculty salaries will be about 7.7 percent behind the average of the University's comparison institutions. A similar gap has been created with respect to staff salaries. Adding to the challenge, health benefit costs are soaring far above available levels of funding, which means employees may suffer further reductions in take-home pay as unfunded health benefit costs are shifted to them. These gaps in salaries and benefits will make it much more difficult to recruit and retain the best faculty and staff, which is particularly critical during this decade of unprecedented enrollment growth. It will be the University's goal to lose no further ground in terms of its ability to offer competitive salaries for all employees in 2003-04 and to seek funding to close the gaps in salaries and benefits as soon as the State's fiscal situation permits.
- Funding for 8,000 full-time-equivalent students at the agreed-upon marginal cost of instruction. This includes planned annual enrollment growth and recognition of the overenrollment in the current year. Funding for enrollment growth during the summer is included in these enrollment estimates for those campuses already converted to State-supported summer instruction.
- A 1 percent adjustment to the base budget associated with funding for core needs, including ongoing building maintenance, instructional equipment, instructional technology, and library materials. These are areas of the budget

that have experienced chronic shortfalls in State funding. The Partnership Agreement with the Governor envisioned four years of State funding that would close two-thirds of this funding gap, with the expectation that campuses would redirect existing campus resources to close the remainder of the gap at the end of the Partnership Agreement's term. Unfortunately, the State has been unable to fund this portion of the Partnership for 2001-02 and 2002-03. It is the University's intention to return to meeting the Partnership goal in 2003-04, provided that State funds for this purpose are included in the budget.

- Restoration of the one-time, \$29 million budget reduction in 2002-03 to the base funding provided for deferred maintenance, instructional equipment, instructional technology, and library materials. This reduction occurred in addition to underfunding the core needs component of the Partnership Agreement in 2002-03. The Governor stated his commitment to restore the \$29 million to the University's budget in 2003-04; therefore, this funding will be included in the University's 2003-04 budget request.
- Funding to continue converting campuses to State-supported summer instruction. The State has provided funding to support existing summer enrollment on four UC campuses: Berkeley, Davis, Los Angeles, and Santa Barbara. It is the University's expectation that funding to convert the remaining campuses to State-supported summer instruction will be requested in the 2003-04 budget. While this issue continues to be a very high priority for both the Legislature and the Governor, given the State's fiscal outlook, it may be that the State must continue phasing in support for the remaining four campuses rather than trying to fund the entire amount in 2003-04.
- It will be necessary to consider raising mandatory systemwide student fees for 2003-04. One of the funding principles in the Partnership Agreement calls for revenue equivalent to that which would be generated from annual increases in mandatory systemwide student fees and Fees for Selected Professional School students of no more than the increase in the California per capita personal income. For seven consecutive years, the State provided funds to avoid student fee increases, and in 1998-99 and 1999-2000, the State provided funds to reduce fees for undergraduates and graduates by 10 percent and 5 percent, respectively. Unfortunately, the 2002-03 budget for the University will not include funding to provide cost increases for fee-funded programs, which essentially amounted to an additional budget cut to the campuses. It is critical that this be avoided in the future. If the State is unable to provide funds to avoid student fee increases in 2003-04, the University must consider implementing student fee increases to fund cost increases for student-fee-funded programs. CPEC is conducting a study, with the participation of all four segments of higher education, student representatives, and representatives from the Legislature, the administration, and the Student Aid Commission. The legislative language calling for this study requests

CPEC to develop a long-term student fee policy which considers the impact of such a policy on State General Fund revenues, student access to higher education, student financial aid needs and requirements, the resources needed by the State's public university systems to offer high-quality instructional programs, and identifiable subgroups of students. The University is actively participating with CPEC on this study.

Together, the increases needed fully to fund the Partnership will require a 9 percent increase in State General Funds, assuming cost increases for student-fee-funded programs are funded through a student fee increase. This percentage will be greater if the State provides the funding to avoid student fee increases.

Given the significant level of increase necessary to fund the University's basic budget under the Partnership, it would not seem prudent to request any augmentations for new initiatives. For the same reason, the University will not request restoration of base budget cuts at this time; however, as soon as the State's fiscal situation permits, it is the University's intention to request restoration of all Partnership funds that have been unfunded, plus as much of the base budget cuts as can be realistically restored, particularly those related to the research cuts for 2002-03.

#### *Capital Budget*

The University's 2003-04 capital budget will be developed assuming the passage of the general obligation bond issue on the November 2002 ballot. The University is in the process of developing a five-year capital outlay plan, similar to the five-year plan developed in the last budget for 2002-03 to 2007-08, that will address needs related to enrollment growth, seismic and other life-safety requirements, renovation of obsolete facilities, and infrastructure. It is estimated that the amount of funding available from the General Obligation bond in 2003-04 will be approximately \$320 million. This is slightly less than the average annual appropriation of \$345 million for UC specified in the legislation authorizing the bond because of accelerated funding UC received for capital outlay in the current year.

Regent Lansing noted that the cuts in funding for K-12 School-University Partnerships were severe. While the outreach for individual students remained intact, \$9 million was cut from the University's \$12 million allocation to support improvements to the school system. Mr. Hershman noted that in addition to the partial restoration of \$3 million of the funding that the University was able to negotiate for the program, it may be possible, by contracting with individual school districts that are University partners, to attract substantial federal money to the program. Federal money may be available also to support the California Professional Development Institutes for teacher training, which lost State money.

Regent Kozberg asked what happened to outreach money for the CSU and community college systems. Mr. Hershman reported that most of that funding remained intact.



Regent Preuss paid tribute to former Regent Max Espinosa, who works for Assemblymember Oropeza and was very helpful to the University during budget negotiations in Sacramento concerning outreach programs. Regent Lozano acknowledged the commitment also of individual Regents, the President, and the Vice Presidents to working with the Legislature with the goal of restoring funding for outreach. Vice President Hershman praised the Governor for his support.

President Atkinson pointed out that funding for agricultural research, which had been reduced in the early 1990s, had been reduced again by 10 percent. He noted that the nation has funded its research programs through the peer review process at institutions such as the National Science Foundation and the National Institutes of Health, which have always treated the University generously, thereby protecting it to some degree from State variations. For historic reasons, however, research in agriculture has been a formula-funded program in which the notion of excellence and focus on peer review has not held. That is why funding from the State is so important for a whole range of activities. He expressed concern about the implications the threat to agricultural research have for the economic health of the state.

3. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR WEST ENTRY PARKING STRUCTURE, DAVIS CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the 2002-03 Budget for Capital Improvements and the 2002-05 Capital Improvement Program be amended to include the following project:

Davis: West Entry Parking Structure – preliminary plans – \$1.6 million, to be funded from parking reserves.

- B. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings described above.

The committees were informed that the Davis campus proposes to construct a parking structure containing approximately 1,500 spaces and 12,000 gsf of office space at an estimated total cost of between \$32 million and \$37 million, to be funded by external financing. Within this range it is expected that project costs for the parking structure alone will range between \$22 to \$26 million, with the remainder of the costs involving work on the site, utility relocations, and the office space.

Background

Parking needs at the Davis campus have increased in recent years due to growth of student enrollment, faculty and staff employment, and campus visitors. The campus Long Range Access Plan developed by Transportation and Parking Services analyzed parking demand based on campus use benchmarks. The plan also outlined strategies to meet increased parking demands created by campus growth and identified alternatives to meet the new demand most effectively. The key indicators that additional parking facilities were needed are as follows:

- Over 90 percent of the parking spaces are occupied in the winter in the central campus, Medical Sciences Complex, and major facilities on the west and south campus areas.
- The LRDP EIR Mitigation Measures require that additional parking be put in to service when this threshold is reached. The most recent survey conducted in January 2002 indicates that the rate of use has grown to 93 percent.
- Capital projects displace existing parking, resulting in reductions in the inventory of spaces.
- Major capital projects or initiatives bring population growth, resulting in higher parking demand.

The campus promotes a number of alternative transportation programs to reduce the parking demand. The campus also currently uses stacked parking to accommodate additional cars during peak demand. Despite these measures, demand projections from the Long Range Access Plan indicate that due to the expected loss of over 1,000 spaces, plus campus growth projections, the campus will require an additional 1,351 parking spaces just to meet the 90 percent threshold at the time this parking structure is completed in 2005.

#### Project Description

The six-story parking structure will be constructed on an existing temporary 116-space parking lot located south of the Fire & Police Building at the corner of Kleiber Hall Road and Hutchison Drive. The project will provide permanent office space for Transportation and Parking Services to replace its temporary trailer space.

Construction will begin in winter 2003 and will be completed in winter 2005.

#### CEQA Classification

In accordance with the California Environmental Quality Act and University procedures for implementation of CEQA, an appropriate environmental document will be presented at a future meeting for consideration by The Regents in conjunction with project design review.

Funding Plan

The project will be funded through external financing. The initial funding of the preliminary plans phase will come from parking reserves that will be replaced with external financing following Regental financing approval. Repayment of the external financing will be repaid from UC Davis Parking System Net Revenues.

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

4. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR TOWER II, PHASE 2, DAVIS CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the 2002-03 Budget for Capital Improvements and the 2002-05 Capital Improvement Program be amended as follows:

From: Davis: Tower II, Phase 2 – preliminary plans, working drawings, construction – \$19,971,000 to be funded from hospital reserves (\$5,826,000), State lease revenue bond funds (\$9,145,000), and State appropriation for teaching hospital infrastructure funds (\$5,000,000).

To: Davis: Tower II, Phase 2 – preliminary plans, working drawings, construction – \$23,431,000 to be funded from hospital reserves (\$9,286,000), State lease revenue bond funds (\$9,145,000), and State appropriation for teaching hospital infrastructure funds (\$5,000,000).

- B. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings described above.

### History of Approvals

It was recalled that The Regents originally approved the Tower II, Phase 2 project in March 1998 at a project cost of \$18,140,000, to be funded from hospital reserves. In April 2001, the Medical Center submitted a request for an augmentation of the project. The rationale for the augmentation was related to three major project components. First was a change in project cost from \$18,140,000 to \$19,971,000, primarily related to regulatory reviews and market conditions that had adversely affected the expected project cost. The second was a minor adjustment in the square footage, which was based on updated program needs and more precise design information. The final change was in the addition of two new funding sources to the previously authorized hospital reserve funding. It added a portion of the project cost to be funded from State Public Works Board Lease Revenue Bond funds and from funds authorized by The Regents for Teaching Hospital Infrastructure Repairs. This request was approved under Action by Concurrence in April 2001.

### Project Description

This project provides tenant improvements to 27,200 asf of shell space in the UCDCM Tower II in Sacramento to accommodate nursing units for obstetrics and adult medical-surgical that will be moved from the seismically deficient area of the hospital.

### Need for this Augmentation

The project budget has increased due to schedule delays caused by increased Statewide Office of Health Planning and Development (OSHDP) oversight that has resulted in incremental increases in construction management costs, fees, and compensable delay costs. The augmentation includes a contingency of \$200,000 for the completion of the project. The budget increase of \$3.46 million, which is 14.7 percent over the approved project budget, will be funded from hospital reserves.

### Basis of Augmentation

The rationale for this augmentation is primarily related to unforeseen compensable delays. The original project completion date has been moved from February 2002 to August 2002, due to the following factors:

- Construction activity on the project has included leveling of concrete floors, drilling of concrete floor slabs for equipment anchors, and use of powder-actuated anchors for wall framing and ceiling hangers. All of these activities transmit vibrations and noise throughout the hospital wing occupied by patients and staff. In some cases, it has been necessary to stop or delay work in order to avoid unacceptable noise and vibration impacts on hospital operations. In the aggregate, these delays account for several months of overall project delay. Because these delays were not attributable to contractor

performance, they are compensable at the contracted bid rate for compensable delay.

- The original project budget provided resources necessary for OSHPD reviews and approvals that were based on previous campus experience with the agency. Shortly after this project started, the Sacramento OSHPD office altered its process. Previously, OSHPD performed reviews and evaluated Requests for Information and Information Bulletins at their Sacramento office. The change in process shifted that responsibility to the OSHPD field staff, resulting in delays. This change added additional coordination between subcontractors and resulted in additional scrutiny by OSHPD inspectors and field staff who had not dealt with the level of review now expected by their OSHPD superiors. The new process resulted in the generation of a large number of field changes requiring additional drawings and specifications by consultants, followed by field approvals, which frequently resulted in interruptions in the work sequence. These interruptions each incrementally resulted in several weeks of project delays, which are compensable to contractors and are not accounted for in the current approved construction budget.

#### CEQA Classification

An Environmental Impact Report was prepared and certified in 1994 for the entire Tower II project.

#### Financial Feasibility

Based on favorable financial conditions, conservative projections, and confirmation by the Office of the President staff, the Medical Center has sufficient capital and resources to complete this project and meet all projected fiscal obligations, including the bond issued in 1996. The current hospital reserves fund approval is for \$5,826,000. Due to the delays, the adjusted hospital reserves component will be \$3,460,000 greater, for a total of \$9,286,000. This addendum does not alter the recently authorized State Public Works Board Lease Revenue Bond funding to finance work directly related to SB 1953 compliance nor the funds allocated by The Regents for Hospital Infrastructure Repairs.

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

5. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, AND APPROVAL OF EXTERNAL FINANCING FOR COMPUTER SCIENCE UNIT 3, IRVINE CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the 2002-03 Budget for Capital Improvements and the 2002-05 Capital Improvement Program be amended as follows:

From: Irvine: Computer Science Unit 3 – preliminary plans, working drawings, construction, and equipment – \$49,520,000 to be funded from State funds (\$34,822,000) and campus funds (\$14,698,000).

To: Irvine: Computer Science Unit 3 – preliminary plans, working drawings, construction, and equipment – \$50,620,000 to be funded from State funds (\$34,822,000), campus funds (\$3,000,000), and external financing (\$12,798,000).

- B. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings described above.
- C. The Committee on Finance recommend that the President be authorized to obtain external financing not to exceed \$12,798,000 to finance the Computer Science Unit 3 project, subject to the following conditions:
- (1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - (2) Repayment of the debt shall be from the Irvine campus's share of the University Opportunity Fund.
  - (3) The general credit of The Regents shall not be pledged.
- D. 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.
- E. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

It was recalled that in November 2001, The Regents approved the 2002-03 Budget for Capital Improvements, which included the Computer Science Unit 3 project at a sum

of \$49,520,000, comprising preliminary plans (\$1,779,000), working drawings (\$954,000), construction (\$29,089,000 from State funds and \$11,698,000 from campus funds), and equipment (\$3,000,000 from State funds and \$3,000,000 from campus funds). Because the 2002-03 Governor's Budget includes a total of \$2,733,000 in State funds for preparation of preliminary plans and working drawings, the campus will change the source of the non-State funds in the construction phase from campus funds to external financing. This change also requires an increase to the project budget of \$1,100,000 to provide for interest during construction. As a result, the proposed total funding from external financing is \$12,798,000, and the revised total project cost is \$50,620,000.

The Computer Science Unit 3 project was planned to address urgent space needs of the Irvine campus. Overall, the campus expects to add 8,400 additional student FTE and 450 new faculty between 2000-01 and 2007-08, while projections for the Department of Information and Computer Science (ICS) indicate enrollment growth of approximately 550 FTE and an estimated 37 additional faculty. The 87,400 asf provided in Computer Science Unit 3 will afford teaching and research space and academic and administrative offices to accommodate growth in ICS, general assignment classrooms to serve the campus as a whole, and surge space to meet the most urgent near-term needs for dry laboratory and office space in disciplines such as engineering, humanities, social sciences, and social ecology.

#### Project Description

The Computer Science Unit 3 project will construct a total of 87,400 asf to provide 48,060 asf for the Department of Information and Computer Science and 13,340 asf for 13 general assignment classrooms, including two lecture halls. In addition, 26,000 asf of surge space will be provided to address other high-priority academic needs.

Current site planning anticipates that the project will be split between two sites, with a small lecture hall building across the Ring Mall from the main building in order to provide direct pedestrian access. Both sites are in conformance with the campus' revised Long Range Development Plan. Construction will start in December 2003, with completion in the summer of 2006.

#### State-funded Improvements (\$34,822,000 - 61,400 asf)

The Department of Information and Computer Science will occupy 48,060 asf consisting of two computer laboratories, research laboratory and office space, conference rooms, academic office space, and administrative office and support space. A total of 13,340 asf will provide 795 general assignment classroom seats.

Non-State-Funded Improvements (\$15,798,000, comprising \$12,798,000 to be externally financed and \$3,000,000 campus-funded equipment - 26,000 asf)

Flexible surge space to meet the campus' high-priority needs will consist of offices and dry laboratories and will be configured in a flexible manner to meet the needs of a variety of potential occupants.

CEQA Classification

In accordance with University of California guidelines for the implementation of the California Environmental Quality Act, environmental documentation will be prepared for consideration in conjunction with the project design review.

Financial Feasibility

The project will be funded from State funds (\$34,822,000), campus funds (\$3,000,000), and external financing (\$12,798,000). Based on long-term debt of \$12,798,000 amortized over 30 years at 6.125 percent interest, the estimated average annual debt service will be \$942,200. Repayment for the debt will be from campus Opportunity Funds. In fiscal year 2007-08, the first full year of occupancy, 46 percent of Opportunity Funds are pledged for debt service. Inclusive of other projects driven by enrollment growth that are under consideration by the campus but that are not yet approved by the Board, the campus Opportunity Funds pledge increases to 61 percent, still within the prescribed Opportunity Funds pledge and payment limits. These calculations do not include projects related to the Health Sciences, including the Medical Center, as the campus is still in the early planning stages for that program.

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

6. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR NORTHWEST HOUSING AND PARKING, PHASE II, LOS ANGELES CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the 2002-03 Budget for Capital Improvements and the 2002-05 Capital Improvement Program be amended as follows:

From: Los Angeles: Northwest Housing and Parking, Phase II – preliminary plans, working drawings, and construction – \$88,185,000 total project cost, to be funded from external financing (\$72,029,000), University of California Housing System reserves (\$16,056,000), and parking reserves (\$100,000).



To: Los Angeles: Northwest Housing and Parking, Phase II – preliminary plans, working drawings, and construction – \$98,772,000 total project cost, to be funded from external financing (\$72,029,000), University of California Housing System reserves (UCHS) (\$26,643,000), and parking reserves (\$100,000).

- B. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings described above.
- C. The Committee on Finance recommend that the financing actions approved by The Regents in August 2000 with respect to Northwest Housing and Parking, Phase II, Los Angeles campus, remain unchanged.

It was recalled that Northwest Housing and Parking, Phase II is a 264,606 asf project containing 1,258 undergraduate bed spaces in double-occupancy rooms, a 900-seat capacity dining area, eight faculty-in-residence apartments, a 447-seat auditorium, and a variety of student support and program areas, including computer labs, meeting and function rooms, and administrative offices. Phase I of the project, consisting of four four-story wood-frame residential buildings, was occupied on September 24, 2000. Phase II, consisting of two four-story residential housing towers built over a three-story “podium” building containing the dining hall, auditorium, administrative offices, and related support space, was occupied on March 1, 2002.

The project was originally approved in May 1997 at a cost of \$71,630,000. The approved project funding sources were external financing (\$63,630,000) and UCHS reserves (\$8,000,000). In June 1997, the Office of the President amended the project’s fund sources to include \$1,900,000 in parking reserves and to decrease external financing by the same amount. The total project cost of \$71,630,000 was to be funded by external financing (\$61,730,000), UCHS reserves (\$8,000,000), and parking reserves (\$1,900,000). Construction activities included in the bid package consisted of demolition, site work, and offsite improvements, which commenced in October 1997.

In July 1998, The Regents approved scope and budget changes representing a net increase of \$9,499,000 in response to community concerns, campus-initiated changes, and refined cost estimates. The total project cost of \$81,129,000 was to be funded from external financing (\$72,029,000), UCHS reserves (\$9,000,000), and parking reserves (\$100,000). Construction activities included in that bid package consisted of the buildings and commenced in August 1998.

In August 2000, the project received administrative approval for a net increase in the project budget of \$7,056,000 due to scope and budget changes. This resulted in a total project cost of \$88,185,000, to be funded from external financing (\$72,029,000), UCHS reserves (\$16,056,000), and parking reserves (\$100,000).

With the exception of a reduction in bed spaces from 1,292 to 1,258, the scope of the 264,606 asf project with 129 parking spaces has remained as approved by The Regents in July 1998. For budgetary reasons, 34 bed spaces could not be created within a portion of the ground level of the adjacent Dykstra Hall as originally planned. Instead, this space has been assigned to housekeeping and maintenance functions serving both De Neve Plaza and Dykstra Hall, with minimum modifications.

#### Need for Budget Augmentation

Since August 2000, the project has experienced increased costs principally due to nondiscretionary changes and delays. Project completion has been substantially delayed beyond the approved completion dates. The approved contract schedule stipulated completion of Phase I in October 1999 and Phase II in April 2000. These phases were not substantially completed until September 2000 and March 2002, respectively. The campus has also elected to implement some discretionary changes to the work in order to enhance functionality and safety.

Project delays and changes are the subject of ongoing and anticipated future claims. The Office of the General Counsel is consulting with the campus on claim matters, and associated counsel has been retained to assist the University and the campus in resolving claims and to protect the University's interests.

Net project cost increases of \$10,587,000 incurred since August 2000 are described below:

#### *Construction Cost Increase (+\$9,149,000)*

Direct construction costs increased by \$7,803,000, representing \$7,277,000 in non-discretionary changes and \$526,000 in discretionary changes requested by the campus. Construction management increased by \$1,346,000 due to the changes and time delays.

Nondiscretionary changes totaling \$7,277,000 include modifications to the interior (\$1,617,000); the structural framing (\$333,000); the exterior skin (\$1,045,000); the fire alarm, audiovisual, and electrical systems (\$624,000); the plumbing and fire sprinkler systems (\$637,000); the roofing and waterproofing (\$514,000); and the interior finishes (\$588,000).

Discretionary changes totaling \$526,000 include modifications to trash rooms to add locking storage areas; the addition of a water softener system, ceramic wall tile in the kitchen, and landscape enhancements; additional temporary site fencing; additional conduit and locks; upgraded finishes and fixtures; and minor miscellaneous changes.

Additional cost increases of \$1,346,000 were incurred to monitor the work of the contractor and to review and reconcile contractor Change Order Requests and claims. This extended the construction management effort by approximately 28 months,

requiring five full-time and two part-time construction management staff committed to the field operation.

*External Fee Increase (+\$889,000)*

Architect's fees increased by \$691,000 due to the need for an extended service period, to closely monitor the work of the contractor, and to review and respond to contractor Change Order Requests and claims. This effort required the architect to staff a field office with four professionals to deal with the constant flow of changes and revisions. Mechanical engineering fees increased by \$185,000. Independent elevator performance reviews to determine the cause of elevator equipment overheating and malfunction added \$13,000.

*Internal Fee Increase (+\$441,000)*

Internal fees increased by \$200,000 for additional administration, accounting, and campus engineering reviews related to the extended schedule. Inspection fees increased by \$241,000 due to the need for extensive inspections and re-inspections.

*Surveys, Tests, Plans, Specifications Increase (+\$267,000)*

Increased survey and testing costs resulted from mold abatement work due to the exposure of the wood-frame structure to heavy rains (\$35,000); additional materials and installation testing (\$85,000) and soils testing (\$13,000) due to the extended work schedule; additional testing and inspection of the roofing following non-discretionary changes to the roofing system (\$44,000); additional costs for reimbursable expenses including the extension of the project's Errors and Omissions insurance policy, and for printing, equipment, and supplies for the construction manager and architect's field operations (\$86,000); and additional miscellaneous survey work (\$4,000).

*Special Items Increases (+524,000)*

Interest expense increased by \$354,000 due to the delay in project completion. Other cost increases related to the extended schedule include expenses incurred by Environment, Health and Safety for mold abatement monitoring (\$30,000). Increased costs resulted from the use of existing campus parking areas for construction staging and consultant parking in order to expedite the project schedule by storing construction materials nearby instead of at off-campus locations (\$70,000). Non-discretionary changes made to the structural and fire monitoring and suppression systems resulted in additional costs for structural engineering review (\$42,000) and independent fire prevention and fire system reviews (\$28,000).

*Contingency Decrease (-\$683,000)*

Contingency has decreased by \$683,000 to \$500,000. While the project is substantially complete, additional Change Order Requests (CORs) are anticipated to be submitted by the contractor and/or its sub-contractors. The contingency is needed to respond to such CORs as may have merit.

Financial Feasibility

The increase of \$10,587,000 will be funded by UC Housing System Net Revenues. The total project cost of \$98,772,000 will be funded from previously approved external financing (\$72,029,000), from UCHS Reserves (\$26,643,000), and Parking Reserves (\$100,000). The external financing will be repaid from UC Housing System Net Revenues.

Repayment of the project debt will be from student rents generated by the project and revenue from existing campus bed spaces. The augmentation will not result in a significant increase or decrease in the affordability or cost of student housing at UCLA, and has already been factored into 2002-03 residence hall rates. The average annual (9.5 month) cost per student for the Northwest Housing and Parking, Phase II facility will be \$10,325. This figure includes housing, meal plan, utilities, cable TV, Internet conductivity, and custodial and student services. The cost of a typical, full year, campus high-rise residence hall contract, with a 19 meal-per-week plan, is \$8,690. The rates for off-campus comparable accommodations are on average 30 percent higher.

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

7. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, AND AMENDMENT OF EXTERNAL FINANCING FOR COMMONS EXPANSION, RIVERSIDE CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the appropriate Budgets for Capital Improvements and Capital Improvement Programs be amended to reflect the following changes:

From: Riverside: Commons Expansion – preliminary plans, working drawings, construction, and equipment – \$47,803,000 to be funded from external financing.

To: Riverside Commons Expansion – preliminary plans, working drawings, construction, and equipment – \$54,173,000 to be funded from external financing (\$51,923,000) and registration fees reserves (\$2,250,000).

- B. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings described above.

- C. The Committee on Finance recommend that the financing actions approved by The Regents in March 2002 with respect to Commons Expansion, Riverside campus, be amended, with the understanding that all other financing actions by The Regents regarding said project remain unchanged:
- (1) The Committee on Finance recommends to The Regents that the President be authorized to obtain external financing not to exceed \$51,923,000 to finance a portion of construction and related costs of the Commons Expansion, Riverside campus, subject to the following conditions:
    - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period;
    - b. Repayment of the Referendum portion of the debt (\$46,262,000) shall be from Commons Expansion Referendum student fees approved by student vote in April 2001 and by The Regents in July 2001, which shall generate net revenues sufficient to pay debt service and to meet all related financing requirements of the proposed funding;
    - c. As long as the registration fees portion of the debt (\$5,661,000) is outstanding, net campus registration fee revenues will be committed in sufficient amounts to pay debt service and to meet all related financing requirements of the proposed funding; and
    - d. The general credit of The Regents shall not be pledged.
- D. 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.
- E. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

#### History of Approvals

It was recalled that UCR's undergraduate and graduate students voted in April 2001 to increase the Student Center (Commons) Fee from \$20 to \$110 per student per quarter in support of the Commons Expansion project. The Regents approved the increases in July 2001.

In March 2002, The Regents amended the Capital Improvement Program to include the Commons Expansion project at a total cost of \$47,803,000 and approved related

external financing. The sole repayment source for the external financing was the existing and newly approved student referendum fees in support of the Commons project.

Subsequent to the March 2002 amendment and finance approval, the campus completed program verification as the first step of schematic design. During the program verification phase, at the request of the student leadership participating in the Commons Expansion Building Committee, the campus assessed the feasibility of expanding the project program and scope to include Registration Fee-funded programs currently housed in or associated with the existing Commons. The feasibility assessment identified a revised project scope of 103,204 asf/158,775 gsf and a budget of \$54,173,000. The revised scope and budget were reviewed and recommended for funding by the Registration Fee Advisory Committee in March 2002. The Commons Expansion Building Committee reviewed and approved the revised scope and budget in April 2002. Student leadership representatives reviewed and approved the revised project scope and budget in May 2002.

#### Project Description

The Commons Expansion project will construct student program and organization offices, office support space, lounges, meeting rooms, multi-purpose event space, redeveloped and expanded food services, and expanded retail services.

The project scope of work includes site preparation, utility work, and development of exterior soft-scape and hard-scape elements. Construction will be scheduled to commence in fall 2003, with completion of Phase I slated for winter 2004 and completion of Phase II for fall 2005.

#### Changes in Scope (+\$8,218,000)

The increase of 26,954 asf/41,475 gsf is to accommodate additional student program space.

Changes from the Change in Capitalized Interest (-\$1,848,000)

The project, which was conceived to have four principal phases, will have two consolidated phases to incorporate revised approaches to temporary relocation of occupants during construction as well as revised approaches to accommodating project components in new space. The consolidated phasing plan resulted in a shorter construction period, which saved approximately \$1,848,000 in estimated interest during construction.

CEQA Classification and Site Considerations

In accordance with the California Environmental Quality Act of 1970 and University of California procedures for implementing CEQA, appropriate environmental documentation will be prepared at the time of design approval.

The site is the location of the existing Commons, which consists of the University Commons building, the Commons Conference rooms, and Costo Hall, and immediately adjacent hardscape and landscape areas. The Commons site is flanked by the UCR Bookstore, a primary east-west pedestrian corridor to the immediate east, the Carillon Mall, and Costo Hall. Costo Hall will remain but will undergo an interior remodel as part of this project. The campus Long Range Development Plan designates this site for Student Services use. As such, the Commons Expansion project is consistent with current LRDP land use designations.

Financial Feasibility

The budget increase will be funded from external financing (\$4,120,000) and Registration Fees reserves (\$2,250,000). The revised total project cost of \$54,173,000 will be funded from a combination of external financing (\$51,923,000) and Registration Fees reserves (\$2,250,000). Assuming debt of \$51,923,000 amortized over 30 years at 6.125 percent interest, the average annual debt service is estimated at \$3,823,000. Of the external financing, \$46,262,000 will be for the Commons Referendum Fee portion to be repaid from student fees, and \$5,661,000 will be for the Registration Fee-funded portion to be repaid from Registration Fees. Adequate debt coverage is provided for both fund sources.

Senior campus administration, including the Vice Chancellors of Student Affairs and Academic Planning and Budget, consulted with the Registration Fee Committee regarding the pledge of Registration Fees for this project.

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

8. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, AND APPROVAL OF**

**EXTERNAL FINANCING FOR STUDENT RESOURCE BUILDING, SANTA BARBARA CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the 2002-03 Budget for Capital Improvements and the 2002-05 Capital Improvement Program be amended to include the following project:

Santa Barbara: Student Resource Building – preliminary plans, working drawings, construction, and equipment – \$24,522,000 to be funded from external financing (\$19,202,000), University registration fee reserves (\$2,820,000), gift funds (\$250,000), President’s matching child care funds (\$750,000), and student resource building fee reserves (\$1,500,000).

- B. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings described above.

- C. The Committee on Finance recommend that financing be obtained not to exceed \$19,202,000 for the project listed above, 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 Student Resource Building student fees approved by student vote in April 2001 and by The Regents in July 2001, and from \$300,000 of registration fees annually, which shall generate net revenues sufficient to pay debt service and to meet all related financing requirements of the proposed funding.

- D. 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.

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

It was recalled that in April 2001, UC Santa Barbara students approved a new Student Resource Building Fee to support construction of a building to house various Student Affairs departments and satellites and provide student study and activity space. The Regents approved the establishment of the fee in July 2001.



A significant portion of academic support and student life services are provided from temporary facilities that are poorly ventilated and overcrowded. Students have made repeated requests for improved and added space for extracurricular activities.

The Student Resource Building will house the following departments and services:

- Educational Opportunity Program
- Office of International Students and Scholars
- Campus Learning Assistance Services
- Early Academic Outreach and Upward Bound
- Office of Student Life
- Women's Center
- Education Program for Culture Awareness
- Graduate Division Satellite
- Child Care Center Satellite Facility
- Student Resource Centers

In March 2001, the University of California launched a new child care facilities initiative. With President Atkinson's support, the proposal was developed by the Academic Senate. It provides for expanded child care services and facilities at the UC campuses with support through matching non-State funds from the Office of the President.

It is estimated that current unmet need for on-campus child care at Santa Barbara is in the 150 to 200 range. The Orfalea Family Children's Center, which has been in operation since 1970 at its present location on the west campus, approximately two miles from the main campus, has a waiting list of 200 infants and toddlers. Students, staff, and faculty with young children have expressed the need for convenient, on-campus child care for many years. The project will allow the campus to increase its existing child care capacity by approximately 52 infants and toddlers and will be available to students, faculty, and staff. Similar to the existing Children's Center on the west campus, the new child care program will be accredited by the National Association for the Education of Young Children.

#### Project Description

The building will consist of 23,880 asf of office space and 18,120 asf of student activity support space, including the child care center. During initial project programming, the campus was able to achieve space efficiencies of about 2,160 asf with adjacencies of departments. It is anticipated that the project will accommodate projected departmental staff increases through fiscal year 2005-06.

The Child Care Infant/Toddler Satellite Facility project element will provide four classrooms for infants and toddlers on the main campus. Two infant and two toddler classrooms will provide full- and part-time care for children three months to three

years of age. The Center will accommodate 12 full-time staff members and 20 part-time UCSB student assistants.

The project site will be the northern portion of Parking Lot 23 on the main campus, bounded by the southern portion of Parking Lot 23, Ocean Road and Isla Vista to the west, Snidecor Hall to the east, and the campus Parking Lot 22 to the north.

As a result of the project, approximately 25,500 asf will be vacated in several temporary buildings. A small portion of this space will be retained by selected student service programs, including Student Information Systems and Technology, but the majority will be used to meet campus surge space needs. Of the remaining vacated space, three cargo containers will be demolished and one trailer will be removed from campus.

Also as a result of the project, 215 parking spaces will be removed. In accordance with campus practices, the Division of Student Affairs will compensate the parking system in the amount of \$400,000 for the loss of spaces on the site, which are planned to be replaced in another location in the future. The parking replacement cost is included in the budget of the project and will be funded by student building fees reserves. As part of an Environmental Impact Report, a separate parking feasibility study for provision of a new 900-space parking structure is under way. Not only will this structure compensate for the spaces lost as a result of the Student Resource Building and increase the net parking inventory, it will mitigate other campus traffic issues and provide for an increase in demand due to campus population growth.

The preliminary design will be scheduled to start in summer 2002, with construction to begin in spring 2004 and be completed in December 2005.

#### CEQA Compliance

An Environmental Impact Report will be prepared and presented for consideration at the time of the project's design approval.

#### Financial Feasibility

##### *External Financing (\$19,202,000)*

The building will be the third externally financed project for the Student Affairs Department. Repayment of the debt will be from revenue collected from the Student Resource Building Fee approved by the students in April 2001 and by The Regents in July 2001. Assuming 6.125 percent interest for 30 years, the average annual debt service on \$19,202,000 will be \$1,413,700.

Collection of the Student Resource Building Fee will begin in fall 2004 at a rate of \$33.33 per quarter per student, and \$21.49 per summer session per student. Total student enrollment in 2004-05 is projected to be 65,100, resulting in anticipated annual

revenue of \$2,088,087. For the purposes of financial planning, the campus has based the revenue projection on very conservative headcount estimates. Implementation of the fee will result in a total campuswide fees for undergraduates enrolled during the regular academic year of \$192.06 per student per quarter. Campuswide fees for graduate students will be \$136.03 per student.

In addition to the student building fees, \$300,000 in Registration Fees has been committed to this project annually for the 30-year loan. Operating expenses are estimated to be \$548,000, leaving \$1,840,087 of net revenues available for debt service.

There is no existing debt pledged against the new student fee; projected revenues are sufficient to cover all new debt obligations, maintenance, and operations expenses. The first year of operation is covered with permanent funds at 1.30x coverage.

*University Registration Fee Reserves (\$2,820,000)*

The Chancellor, after consultation with the Registration Fee Advisory Committee, has committed \$2,820,000 from Registration Fees reserves as equity towards the project. These contributions will be provided in FY 2002 to 2005 for project expenditures.

*Student Resource Fee Reserves (\$1,500,000)*

The student body approved commencement of the new fee in fall 2004 prior to the completion of the project in fall 2005. The fee is anticipated to generate \$1,939,806 in revenues in FY 2004-05, of which \$1,500,000 will be used towards project costs.

*President's Matching Child Care Funds (\$750,000)*

In February 2001, President Atkinson invited campus proposals for child care facilities and offered to match a portion of the campus funds. Santa Barbara proposes to commit gift funds and mandatory student fees to the project for the child care element, which would be matched by the President in the amount of \$750,000.

*Gift Funds (\$250,000)*

As of May 31, 2002, the status of the gift campaign for the project was as follows:

Gifts In-Hand	\$ 0
Pledges Received	250,000
Pledged To Be Raised	<u>0</u>
Total	\$250,000

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

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

9. **AUTHORIZATION OF LEASES AND AGREEMENTS FOR SEISMIC CORRECTIONS AT SAN DIEGO CAMPUS TEACHING HOSPITAL FACILITIES**

The President recommended that the Committee on Finance recommend that, subject to adoption by the State Public Works Board of a resolution authorizing the issuance of State Public Works Board Lease Revenue Bonds, and authorizing interim loans from the State's Pooled Money Investment Account or General Fund for the following projects:

San Diego campus:

- UCSDMC, Hillcrest Seismic Improvements, Phase 1
- UCSDMC, Hillcrest Seismic Improvements, Phase 2

A. The President or the Secretary be authorized to:

- (1) Execute an unsubordinated site lease from The Regents to the State Public Works Board (SPWB) for each project named above, said leases to contain provisions substantially as follows:
  - a. The site shall comprise the approximate size of the footprint for each building named above. Said lease shall also include a license to the SPWB for access from campus roads to the site during the term of the lease;
  - b. The purpose of the lease shall be to permit construction of the project;
  - c. The term of the site lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;
  - d. The rental shall be \$1 per year;

- e. The Regents shall have power to terminate the site lease in the event of default by the SPWB, except when such termination would affect or impair any assignment or sublease by the SPWB and such assignee or subtenant is duly performing the terms and conditions of the lease;
  - f. The Regents shall provide to the SPWB and any assignee of the SPWB access to the site and such parking and utility services as are provided for similar facilities on the campus;
  - g. The Regents shall waive personal or individual liability of any member, officer, agent, or employee of the SPWB;
  - h. The Regents shall agree to pay assessments or taxes, if any, levied on the site or improvements attributable to periods of occupancy by The Regents; and
  - i. In the event any part of the site or improvements is taken by eminent domain, The Regents recognizes the right of the SPWB to retain condemnation proceeds sufficient to pay any outstanding indebtedness incurred for the construction of the project.
- (2) Execute an agreement between the State of California, as represented by the SPWB, and The Regents for each project named above, said agreements to contain the following provisions:
- a. The SPWB agrees to finance construction of the project, as authorized by statute; and
  - b. The Regents agrees to provide and perform all activities required to plan and construct said project.
- (3) Execute a facility lease from the SPWB to The Regents for each project named above, said leases to contain provisions substantially as follows:
- a. The purpose of the building's occupancy shall be to use it as a facility for acute care in-patient service and support-related functions in furtherance of the University's mission related to instruction, research, and public service;
  - b. The SPWB shall lease the financed facility, including the site, to The Regents pursuant to a facility lease;

- c. The terms of the facility lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;
- d. If the SPWB cannot deliver possession to The Regents at the time contemplated in the lease, the lease shall not be void nor shall the SPWB be liable for damages, but the rental payment shall be abated proportionately to the construction cost of the parts of the facility not yet delivered;
- e. In consideration for occupancy during the term of the lease and after the date upon which The Regents takes possession of the facility, The Regents shall pay base rent in an annual amount sufficient to pay debt service on the bonds or other obligations of the SPWB issued to finance or refinance the facility and additional rent for payment of all administrative costs of the SPWB;
- f. The Regents covenants to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations;
- g. During occupancy, The Regents shall maintain the facility and pay for all utility costs and shall maintain fire and extended coverage insurance at then current replacement cost or an equivalent program of self-insurance, and earthquake insurance if available on the open market at a reasonable cost;
- h. During occupancy, The Regents shall maintain public liability and property damage insurance, or an equivalent program of self insurance, on the facility and shall maintain rental interruption or use and occupancy insurance, or an equivalent program of self insurance, against perils covered in (1)g. above;
- i. In the event of default by The Regents, the SPWB may maintain the lease whether or not The Regents abandons the facility and shall have the right to relet the facility, or the SPWB may terminate the lease and recover any damages available at law;

- j. The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if The Regents files any petition or institute any proceedings for bankruptcy, or if The Regents abandons the facility;
  - k. The Regents shall cure any mechanics' or materialmen's or other liens against the facility and, to the extent permitted by law, shall indemnify the SPWB in that respect;
  - l. The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the facility; and
  - m. Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the facility shall vest in The Regents.
- B. The President be authorized to identify assets to be leased in lieu of facilities constructed pursuant to (1) and (2) above, and to execute documents necessary to lease such assets.

The Committees were informed that actions will permit the construction or renovation of facilities at the University of California Medical Center at the San Diego campus to comply with the Hospital Facilities Seismic Safety Act (SB 1953, Chapter 740, Statutes of 1994), which mandates that the owners of all acute care hospitals in California perform a seismic evaluation of their facilities. This evaluation, to be conducted in accordance with procedures developed by the Office of Statewide Health Planning and Development (OSHPD), is intended to determine the probable performance during a seismic disaster of each hospital building used for inpatient care. Following this evaluation, a structural performance category rating must be assigned to each hospital facility according to the performance criteria established by OSHPD. Any general acute care hospital facility determined to be a potential risk of collapse or to pose significant loss of life, and consequently assigned an SPC1 rating, must be taken out of service by January 1, 2008 or used only for non-acute care hospital purposes.

Senate Bill 1667 (Chapter 71, Statutes of 2000) authorizes the State Public Works Board to issue up to \$600 million in State Lease Revenue Bonds for seismic corrections to assist the University's five medical centers meet the 2008 requirements of SB 1953. The medical centers have developed plans to comply with SB 1953, and at the November 2000 Regents' meeting, the following allocation of the \$600 million in State Lease Revenue Bonds was approved:

UCDMC:	\$120,000,000
UCIMC:	\$235,000,000

UCLAMC:	\$180,000,000
UCSDMC:	\$ 40,000,000
UCSFMC:	\$ 25,000,000

#### 1995 and 1996 Asset Transfer Program

As part of the negotiations for the 1994 and 1995 State Budgets, the state authorized the use of \$25 million for each year in debt financing for deferred maintenance, shifting deferred maintenance costs from general funds to long-term financing. Initially, it was anticipated that the appropriations for the deferred maintenance program would be funded through the sale of lease revenue bonds issued by the State Public Works Board, a financing method used for a number of State-funded University capital projects in the past. However, as a result of subsequent discussions with the State Department of Finance, it was agreed that the University would finance the two \$25,000,000 deferred maintenance appropriations included in the 1994 and 1995 State Budget Acts, with the state providing funding for the debt service payments.

The University's financing involved a lease/lease-back mechanism that required the pledge of capital assets. Because there were more than 300 individual deferred maintenance projects in the two-year program, the deferred maintenance projects themselves could not be used as the leased property pledged for the security of the financing. Instead, four University buildings at four different campuses were used to secure the financing. The State has supported this specific asset transfer process by annually funding the University's debt service for the deferred maintenance program.

Due to existing University bonds on the UCSD Hillcrest Hospital, it is anticipated that the asset transfer mechanism will be used, providing substitute assets with replacement cost approximately equivalent to the SPWB expenditures at those locations. Unencumbered assets will be identified and the replacement cost updated using an appropriate index. Sufficient substitute assets will be encumbered and facility leases signed for those substitute assets to satisfy the SPWB facility lease requirements.

#### Leases and Agreements

Under each facility lease, The Regents agrees to pay rent to the SPWB in an amount necessary to repay principal and interest on the obligations of the SPWB issued permanently to finance the construction of the facility. Negotiations between the University and the Department of Finance will determine the repayment arrangements on the debt service. The options for repayment are (1) State general fund appropriation, (2) hospital revenues, depending on the hospital's financial situation from year to year, or (3) a combination of (1) and (2). While the Legislature and the Governor have indicated their recognition of the need for continuing budgetary support, there can be no absolute assurance of this support through the life of the bonds. In any year in which the State fails to appropriate sufficient funds to make the rental payments, The Regents will be obligated to pay rent from any lawfully available



funds. When the obligations are retired, the leases would terminate, and The Regents will obtain clear title to the improvements.

The exact amount of the annual rent will be based on interest rates and the maturity date of the financial instruments as established by the State Treasurer; however, assuming that the total amount to be financed is \$40,000,000 and assuming an interest rate of 6.125 percent, it is estimated that the annual rent will be \$2,945,000 during the period of indebtedness if 30-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses.

The forms for the site and facility leases and the construction agreements will be drafted by the General Counsel and coordinated with the SPWB's counsel.

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

The meeting adjourned at 10:00 a.m.

Attest:

Associate Secretary