

The Regents of the University of California

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

September 17, 2008

The Committees on Grounds and Buildings and Finance met jointly on the above date at the Student Center, Irvine Campus.

Members present: Representing the Committee on Grounds and Buildings: Regents Blum, Hopkinson, Johnson, Kozberg, Reiss, Ruiz, Schilling, Shewmake, and Yudof; Advisory members Bernal and Powell

Representing the Committee on Finance: Regents Blum, Garamendi, Gould, Hopkinson, Island, Kozberg, Lozano, Scorza, Varner, Wachter, and Yudof; Advisory members Bernal, Nunn Gorman, and Croughan; Staff Advisors Abeyta and Johansen

In attendance: Regents Cole, De La Peña, O'Connell, and Pattiz, Regent-designate Stovitz, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Executive Vice Presidents Darling and Lapp, Senior Vice President Hoffman, Vice Presidents Beckwith, Broome, Dooley, Lenz, and Sakaki, Chancellors Birgeneau, Bishop, Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, White, and Yang, and Recording Secretary Lopes

The meeting convened at 1:20 p.m. with Committee Chair Schilling presiding.

1. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL, INTERIM, AND STANDBY FINANCING, MEDICAL CENTER MISSION BAY CLINICAL FACILITIES, SAN FRANCISCO CAMPUS**

The President recommended that:

A. The 2008-09 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: UCSF Medical Center Mission Bay Clinical Facilities – preliminary plans – \$43 million to be funded from hospital reserves.

To: San Francisco: UCSF Medical Center Mission Bay Clinical Facilities – preliminary plans, working drawings, construction, and equipment – \$1.686 billion to be funded from external financing (\$700 million), gifts (\$600 million), State funds (\$200 million), hospital reserves (\$81 million), interest income (\$36 million), and State Children's Hospital Bonds

(\$69 million). The project is contingent upon satisfaction of the financing plan conditions enumerated below in paragraphs B and C. Removal of this contingency is currently expected on or before December 2010.

- B. The President be authorized to obtain external financing not to exceed \$700 million to finance the UCSF Medical Center Mission Bay Clinical Facilities project, subject to the following conditions:
- (1) Financing documentation shall require that as long as the debt is outstanding, the UCSF Medical Center gross revenues shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing, and
 - (2) Forecasted hospital operating cash flow in the second year after project completion (anticipated to be FY2017) shall be sufficient to cover the forecasted annual debt service for all forecasted outstanding indebtedness at a level of three times (3x).
- C. The President be authorized to obtain interim financing not to exceed \$150 million, and stand-by financing not to exceed \$350 million for a total of \$500 million prior to awarding a construction contract to fund uncollected pledges, subject to the following conditions:
- (1) Pledges received of at least \$450 million,
 - (2) Cash collections against pledges of at least \$100 million,
 - (3) Interest only, based on the amount financed, shall be paid on the outstanding balance during the construction period,
 - (4) Financing documentation shall require that the repayment of any standby financing shall be from gift receipts. Documented pledges will be the primary repayment source except for 10 percent of the pledge amount will have an additional repayment source of hospital reserves. Pledges and hospital reserves shall be maintained at a level sufficient to meet the debt service and to meet the related requirements of the authorized standby financing, and
 - (5) Repayment of the interim financing shall be from gift receipts. In the event that the collection of gifts is insufficient, the Medical Center will use hospital reserves to pay the necessary debt service. Forecasted hospital operating cash flow in the second year after project completion (anticipated to be FY2017) is sufficient to cover the forecasted annual debt service for all forecasted outstanding indebtedness, including any forecasted interim financing amount, at a level of two times (2x).

- D. Officers of The Regents be authorized to execute all documents necessary in connection with the above.
- E. The San Francisco campus will return to the Committee on Grounds and Buildings to provide project updates in January 2010 and November 2010.

[Background material was mailed to the Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chancellor Bishop reminded the Regents that this project originated eight years ago when UCSF, faced with seismic code deadlines, surging demand for services, and obsolete facilities, began to plan how to develop and where to locate a new hospital. Today the campus presents the culmination of that planning.

Chief Executive Officer Mark Laret explained that the campus is seeking the Regents' approval for the design, environmental impact report, and budget for the UCSF Medical Center at Mission Bay. Advancing health worldwide is the mission of UCSF and the hospital has a strong and comprehensive record of doing so. The proposed facilities will allow UCSF to further that mission. Many of the diseases of the aging, including neurodegenerative diseases and cardiovascular diseases, will ultimately be diagnosed and treated *in utero* in these new facilities.

Mr. Laret stressed that this project will fulfill UCSF's long-term vision to integrate clinical and research programs, "bench to bedside and bedside to bench." A team has been developed which has drawn on the expertise and learned from the experience of colleagues across the country, including those at UCLA, UCI and UCD to allow UCSF to build state-of-the-art, sustainable health facilities that will become the industry benchmark.

When this project is completed, UCSF will have two comprehensive research and clinical care campuses, Parnassus Heights and Mission Bay. The Mt. Zion facility will be converted to an outpatient center after the Mission Bay campus is opened.

Executive Director Cindy Lima described the progress which has been made since May 2008. All correspondence received by the Regents related to the project has been carefully reviewed and considered, and the issues raised have been fully addressed in the final Environmental Impact Report.

Ms. Lima reported that timeless and transformative building is the architectural vision for this project. Research shows that an important factor in healing is an environment of services that support patients and their families. Some of the services to be implemented in this facility will include valet parking, family living areas with showers, and on-demand food service. Related services will be placed in close proximity.

The project targets a LEED Gold rating, and Ms. Lima advised that project materials will be chosen consistent with environmental health and with the goal of minimizing the

carbon footprint. Key elements of sustainability include selecting materials to reduce toxins, aggressively conserving water, slashing energy consumption, and bringing 100 percent fresh air and extensive natural light to the interiors. UCSF hopes these efforts will be attractive to environmentally conscious philanthropists.

Ms. Lima described the Mission Bay campus, a 14.5 acre site located just south of downtown San Francisco, bordered on the north by the research campus. The clinical buildings are built on the east parcel to maximize program adjacencies. Surface parking on the west parcel preserves space for future development. Configured to be responsive to the urban context, the high volume outpatient building is placed to the north, away from the neighborhood, while the quieter hospital is to the south, across from the public park which will be developed in the southwest corner. At the residential edge, there is a twenty-foot landscaping setback and a ten-foot pedestrian path which reduces the massing. There is an easy flight path for helicopters from across the bay.

Ms. Lima reported that the clinical and research facilities strategic planning process has determined that three specialty hospitals would be located at the new Mission Bay site. Integrating multiple specialty hospitals (children's, women's and cancer) would allow for collaboration between translational research and the delivery of patient care. Pediatrics is the largest single program that can be relocated from Parnassus Heights, which would provide additional floors of space for expansion of adult specialty services in Moffitt/Long Hospital. Pediatric patients make up about 25 percent of all hospitalized patients treated at UCSF. This volume provides a critical mass of clinical activity which can be separated from other services, and which is necessary to ensure clinical and financial feasibility. UCSF Children's Hospital currently operates as a hospital-within-a-hospital, and would benefit from the visibility that a dedicated facility would provide.

As soon as funding allows, Ms. Lima explained, the Mission Bay campus will add an outpatient cancer building, faculty office space and parking. A major expansion some ten years into the future will provide additional beds and expand outpatient services and parking. The space vacated by programs moving to Mission Bay from Parnassus Heights would be backfilled by programs currently constrained by lack of capacity, such as organ transplant, neurosurgery, and cardiovascular services for adults. The relocation of the Children's Hospital and the birth center from Parnassus Heights would allow for expansion of adult specialty services at Moffitt/Long Hospital.

Ms. Lima advised that the six-story complex is shaped like the letter E. Four of the five rooftop gardens are visible from the corner of Mariposa and Third Streets. The buildings are efficiently designed with a 53 percent net-to-gross ratio. Using the California Construction Cost Index to compare the cost per square foot with that of the UCLA and UCI hospital projects, the cost of the UCSF project may appear high. However, surveys of several Bay Area contractors and actual market escalation rates indicate that the costs of construction are comparable.

Ms. Lima emphasized that patient safety and convenience are a top priority. Dual corridors separate patients and staff. A project of this magnitude requires continuous cost

management. Design work has been altered twice to achieve substantial savings. DPR Construction, Inc. (DPR), has been selected as the general contractor through a best selection process. DPR is a national contractor with a reputation for excellent coordination and execution. They are currently providing pre-construction services to the campus. A process will be implemented to tightly control change requests.

Ms. Lima discussed the optimally functional environments of the proposed Mission Bay facilities. The Children's Hospital facility was designed to delight young patients. The Women's and Cancer Hospitals' focus is light and transparency, blending interior and exterior environments. The facilities will be efficient, green, adaptable, state-of-the-art, and patient-centered, serving faculty and staff in advancing health worldwide.

Chief Executive Officer Laret pointed out that the \$1.686 billion cost is a figure inflated to the midpoint of construction in the year 2012, using an 8 percent annual inflation factor. These costs have been validated with several construction management and oversight firms and are consistent with those experienced by the other campuses. Regental approval of the project is contingent on the campus' satisfaction of the financing plan detailed in the item. The Medical Center's strong financial status will allow the campus to fund approximately half of the project through debt and reserves. The campus will rely on external support for the remainder.

Mr. Laret reviewed the sources of funding. The campus has been working with Vice President Broome, Executive Director Kim and colleagues at Lehman Brothers to validate the capacity of UCSF to manage the \$700 million debt. UCSF Medical Center is a \$1.25 billion operation with a strong positive cash flow. An equity contribution of \$117 million from these two sources is not impossible.

Mr. Laret reminded the Regents that in 2004, voters approved Proposition 61, which has provided \$30 million to UCSF Children's Hospital. Those funds will be used for this project. The University is hopeful that in November of this year, California voters will vote for the passage of Proposition 3, which would provide another \$39 million of support. He reported that in the past, the State of California has provided financial support to the University medical centers for seismic purposes, partially funding replacements rather than retrofits. Mr. Laret indicated that while the campus is aware of the state's current financial challenges, it believes the current need is compelling. A November 2010 ballot measure would be ideal, though the construction will run from 2010 to 2014, allowing for flexibility regarding the bond measure.

Mr. Laret commended the visionary and generous community of UCSF supporters. The campus' fundraising campaign of \$600 million is the focus of the UCSF Foundation and a major focus of attention in the Bay Area and Silicon Valley. By the end of 2008, the campus expects to be more than a third of the way to its goal, with an anticipated \$450 million pledged by December 2010. The Regents have been provided with a detailed timetable for collections and potential interim financing.

Mr. Laret observed that there are many financial risks including failure of State bond measures, a shortfall in philanthropy, or escalation of construction costs beyond estimates. By the November 2010 Regents meeting, a much clearer view of the risks will be available.

Depending on the financial issues which may arise, potential responses are in place. Minor financial shortfalls may be compensated by providing more Medical Center equity or raising more money. If more time is needed for a bond measure or philanthropy, the campus will work with the Office of the President on the possibility of bridge financing to allow for completion of the project on schedule. If necessary, the University can seek State authorization to extend the seismic deadline and delay completion of the project until additional funds have been secured. However, additional inflationary costs would then be incurred. Ultimately, if the prospects for viability appear dim, the project can be suspended altogether and implementation of the \$200 million seismic retrofit of the Mt. Zion Hospital could begin in 2010. That retrofit could be completed before the 2015 seismic deadline. Mr. Laret stressed that these alternatives are not desirable, but, if necessary, are credible fallback positions.

Mr. Laret advised that by December 2010, the final decision will be made on whether or not to proceed with the project. At that time, major construction costs would begin to be incurred. The campus is requesting approval of the project contingent on meeting the financing plan. Mr. Laret affirmed that there would be ongoing communication and updates with both the Office of the President and the Regents.

Regent O'Connell expressed strong support for the project. He described UCSF as a world-class institution with staff who perform miracles daily. He related that in conversation with medical leaders throughout the country, cutting-edge, successful research is attributed to UCSF. It is disconcerting that patients seeking treatment are declined because the hospital is at full capacity, a common occurrence. He commended the incremental, intelligent financial approach to maximizing leverage in State resources to ensure the University's ability to build and invest in the facilities.

Regent Hopkinson praised the project, describing it as stellar. While funding will be a challenge, she expressed certainty that the fundraising would be successful. Regent Pattiz recognized the project as outstanding, though the financial challenges will be daunting. Regent Blum assured the presenters of the Board's full support.

In response to Regent Gould's request for clarification about the \$200 million the campus has budgeted as coming from the State of California, Mr. Laret explained that the State has been supportive of the University's medical centers in the past. He acknowledged that significant effort will be required by the University, President Yudof, the Governor's Office and the Legislature. Whether the funds are in the form of a general obligation bond or another form, the campus is relying on the precedent that has been set by the State in supporting this category of initiatives. He noted that for a \$200 million investment, the State of California will benefit from a \$1.7 billion project with a great economic return. If the funds are not available from the State, other alternatives are being

researched. He recognized that the state funds are a vulnerable portion of the financing plan. The potential success of the financial plan will become clearer over the next two years. He assured the Regents that the campus will provide regular updates.

President Yudof expressed his support for the project. While it is expensive and difficult, and the timing is not ideal, he remarked that the project is essential for the long-term future of UCSF. He congratulated the campus on excellence in planning. He added that the future of medicine is tied to high-quality research and medical care and a culture of service in delivering medical care.

Faculty Representative Croughan applauded the thoughtfulness of the design team in the placement of the helipad to minimize disruption to the neighborhood without compromising patient care and safety. She complimented the design team's plans for the location of the faculty offices, maximizing faculty time by obviating the need for shuttling. Ms. Croughan praised the extremely creative ideas of the design team, which make the facilities an asset to the community. She advised that UCSF is known for outreach to the community and K-12 education. She pointed out that the utility plant will be painted in bright colors to provide an opportunity for field trips by elementary and middle school students to learn about alternative energy uses. These field trips present the added benefit of allowing children to experience a children's hospital when they are healthy.

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

2. **CERTIFICATION OF ENVIRONMENTAL IMPACT REPORT, AMENDMENT OF LONG RANGE DEVELOPMENT PLAN AND APPROVAL OF DESIGN FOR INITIAL PHASE OF THE MEDICAL CENTER MISSION BAY CLINICAL FACILITIES, SAN FRANCISCO CAMPUS**

The President recommended that, upon review and consideration of the environmental consequences of the proposed project, the Committee on Grounds and Buildings:

- A. Certify the Environmental Impact Report;
- B. Adopt the Mitigation Monitoring Program, Findings, and Statement of Overriding Considerations;
- C. Amend the 1996 Long Range Development Plan, *Mission Bay: Functional Zones, Figure 16*, to expand the boundary of the Mission Bay campus site to include the 14.52-acre Mission Bay south site, thus increasing the Mission Bay campus site from 42.35 acres to 56.87 acres;
- D. Amend the 1996 Long Range Development Plan, *Mission Bay: Functional Zones, Figure 16*, to adopt changes to the functional zone map for the Mission Bay site;

- E. Amend the 1996 Long Range Development Plan to rename *Table 29: Major New Site Space Program* as *Table 29A: Mission Bay Proposed Space Profile* and update it to expand the space program profile to include the Medical Center program, thus increasing the Mission Bay campus program to 4,437,000 gross square feet;
- F. Amend the 1996 Long Range Development Plan to update *Chapter 6, Major New Site at Mission Bay*, to describe the expansion of the existing Mission Bay campus site and the designated use of the expanded site for clinical care; and
- G. Approve the design for the initial phase of the Medical Center Mission Bay Clinical Facilities.¹

[Background material was mailed to the Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Schilling explained that this item requests certification of an Environmental Impact Report, approval of an amendment to the Long Range Development Plan, and approval of the design for the initial Phase of the Medical Center Clinical Facilities at the San Francisco Mission Bay campus. Each member of the two Committees has been provided with the Environmental Impact Report prepared pursuant to the California Environmental Quality Act which analyzes the impacts of the proposed project, and with copies of all public comments received and responses prepared by the University. The members of the Committees have reviewed and considered the information contained in the environmental documents including all comments received in writing or presented to the Committees and have balanced the specific benefits of the projects against the unavoidable adverse environmental effects.

Regent-designate Stovitz applauded the campus' sensitivity to the community and inquired regarding the flight path of the helicopters arriving at the hospital. UCSF Executive Director Cindy Lima assured the Regents that the primary flight path is over the bay, from the east, consistent with the campus' intention to be responsive to the concerns and needs of the community.

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

¹ Approval of the design of the initial phase of the MCMB Facilities authorizes the design and subsequent construction of the helipad; however, operation of the helipad will require separate approval after an evaluation and design of a sound reduction program.

3. **PROPOSED 2009-11 STATEWIDE ENERGY PARTNERSHIP PROGRAM**

[Background material was mailed to the Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President Lapp introduced Assistant Vice President Bocchicchio. Mr. Bocchicchio explained that there has been a dramatic increase in utility costs which has put severe pressure on the campuses' budgets. With the annual 8 percent increase in costs since 2002, the total purchased University utility cost is \$371 million per year. The projection for next year is another 10 percent increase.

Mr. Bocchicchio advised that fifty percent of all University buildings are older than 35 years, requiring a major investment in renewal of the infrastructure. University policy aims at full sustainability and at being "green" to the extent possible. New facilities in the University system must use 20 percent less energy than the maximum allowed by the California Building Standards Code Title 24 standards. He pointed out that under UC policy, the University is to reduce its energy consumption to 10 percent below the year-2000 levels by the year 2014, and to reduce its greenhouse gas emissions to allow it to become climate neutral as soon as possible. These goals are similar to the goals of the State of California and other institutions.

Mr. Bocchicchio pointed out that the University is currently in partnership with the utility companies that serve the campuses. These companies have provided incentive grants for energy retrofit projects to reduce the amount of energy consumed by the University. Since the inception of the partnership program, the University has implemented \$46 million in energy projects with \$23.5 million in funding provided by the utility companies. The result is an annual energy savings of \$5 million.

To attain the goals set forth in the policies, each campus and medical center has produced a Strategic Energy Plan, prioritizing the projects and energy-efficient initiatives available. Partnership with the utility companies for the years 2009-11 will expand the previous partnerships by a factor of seven. The University will present a proposal to the Regents for funding for the energy retrofit projects. The utility company incentive grants will provide \$75 million of the needed \$290 million.

Mr. Bocchicchio explained that the projected energy savings, as a result of the retrofit projects, is \$38 million. Assuming a fifteen-year financing, the annual debt service would be \$22 million, providing \$16 million per year for other campus priorities. The University consumes 2 billion kilowatt hours per year of electricity. After the completion of the proposed projects, the savings will be 240 million kilowatt hours, a reduction of 12 percent. The University also expends 150 million therms of natural gas per year. He advised that the projected savings would be a reduction of 10 percent, more than 15 million therms. Greenhouse gas emissions, with the proposed partnership, will be reduced by 14 percent of the current University carbon footprint.

Leveraging the University's resources in conjunction with the utility companies' grant monies, the net effect is the reduction of the purchased utility costs, reduction of the capital renewal backlog, and assistance in meeting the sustainability policy goals. Authorization will be sought at the November meeting for the project's budget and for external financing for approximately \$215 million, the costs not covered by the utility incentive grants.

In response to a question asked by Regent Reiss regarding the University's membership in the Climate Registry, Mr. Bocchicchio advised that the University is registered.

The Committees recessed at 2:10 p.m.

The Committees reconvened at 3:15 p.m. with Committee Chair Schilling presiding.

Members present: Representing the Committee on Grounds and Buildings: Regents Blum, Hopkinson, Johnson, Kozberg, Reiss, Ruiz, Schilling, Shewmake, and Yudof; Advisory members Bernal and Powell

Representing the Committee on Finance: Regents Blum, Gould, Hopkinson, Island, Kozberg, Lozano, Scorza, Varner, Wachter, and Yudof; Advisory members Bernal, Nunn Gorman, and Croughan, Staff Advisors Abeyta and Johansen

In attendance: Regents Cole, De La Peña, Lansing, and Pattiz; Regent-designate Stovitz, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Interim Provost Grey, Executive Vice Presidents Darling and Lapp, Senior Vice President Hoffman, Vice Presidents Beckwith, Dooley, Lenz, and Sakaki, Chancellors Birgeneau, Bishop, Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, White, and Yang, and Recording Secretary Lopes

4. FORMULATION OF NEW CAPITAL FUNDING STRATEGY BY THE PRESIDENT

The President recommended that the Committees:

- A. Acknowledge and reaffirm the authority granted to the President under Standing Order 100.4(f) for development of recommendations regarding the University's Capital Improvement Program;
- B. Endorse the intention of the President to:
 - (1) Immediately commence a comprehensive evaluation of capital planning of the University including the following segments:

- a. The need for seismic upgrades/repairs and prioritization of seismic work in accordance with the University Seismic Safety Policy;
 - b. Infrastructure renewal and maintenance needs; and
 - c. The need to develop additional facilities/incremental space to meet anticipated enrollment and programmatic requirements as well as expansion of the University's research activities;
- (2) Develop various funding strategies to implement such plans on a University-wide and campus-by-campus basis over both five-year and ten-year time horizons; and
 - (3) Provide reports and recommendations, as appropriate, to the Regents at the November 2008 and January 2009 meetings regarding such efforts, concurrent with a more complete understanding of the anticipated State capital budget for 2009-2010 and beyond.
- C. Direct the President to present a report at the March 2009 meeting of the Regents summarizing the University's progress with regard to each program for abatement of seismic hazards undertaken in conjunction with the University Seismic Safety Policy (Policy); summarizing the University's response with regard to any recommendations made or exceptions noted by a consulting structural engineer retained under the Policy not otherwise incorporated in a program for abatement; and describing any other plans or actions to be taken, if any, to assure the University's compliance with the Policy; and
- D. Direct the President to amend the Policy to reflect current organizational responsibilities and otherwise to address any material developments since the date of the last Policy revision.

[Background material was mailed to the Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

The Regents have identified evaluation of seismic performance and plans for improvements as priorities to be addressed on an expedited basis. In light of the high degree of interest and concern of the Regents, and pursuant to Standing Order 100.4(f), the President will initiate a comprehensive review of the capital project needs on all campuses and develop funding options to address the competing capital demands while ensuring that the seismic/safety projects proceed expeditiously.

The President will report to the Regents at the November 2008 meeting, and again at the January 2009 meeting, regarding the evaluation and potential funding options, including information regarding the availability or likelihood of state funding for the University's capital projects.

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

The meeting adjourned at 3:20 p.m.

Attest:

Secretary and Chief of Staff