The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
March 28, 2012

The Committee on Grounds and Buildings met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Hallett, Makarechian, Newsom, Ruiz, Schilling, and Zettel; Ex officio member Yudof; Advisory members Anderson and Rubenstein; Staff Advisor Herbert

In attendance: Regents De La Peña, Pelliccioni, Varner, and Wachter, Regents-designate Mendelson and Stein, Faculty Representative Powell, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, Provost Pitts, Chief Financial Officer Taylor, Vice President Lenz, Chancellors Block and Katehi, and Recording Secretary McCarthy

The meeting convened at 1:55 p.m. with Committee Chair Makarechian presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of January 18, 2012 were approved.

2. **AMENDMENT OF THE BUDGET AND APPROVAL OF EXTERNAL FINANCING AND STANDBY FINANCING, LUSKIN CONFERENCE AND GUEST CENTER, LOS ANGELES CAMPUS**

The President recommended that:

A. The 2011-12 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Los Angeles: <u>Luskin Conference and Guest Center</u> – preliminary plans, working drawings, construction, and equipment – $162,425,000, to be funded from external financing ($112,000,000), gift funds ($40,000,000), housing reserves ($7,225,000), and campus funds ($3,200,000).

B. The scope of the Luskin Conference and Guest Center shall provide approximately 294,000 gross square feet, which is planned to include: a conference facility with meeting space and guest rooms, a parking garage for resident guests, a catering kitchen, and improvements to the adjacent traffic turnabout and pedestrian areas in Gateway Plaza at the main entrance to campus.

C. The President be authorized to obtain external financing not to exceed $112,000,000 to finance the Luskin Conference and Guest Center project. The President requires that:

(1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

(2) As long as the debt is outstanding, general revenues from the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

(3) The general credit of the Regents shall not be pledged.

D. The President be authorized to obtain standby financing not to exceed $35,000,000 for the 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) As long as the debt is outstanding, general revenues from the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

(3) The general credit of the Regents shall not be pledged.

E. The President be authorized to execute all documents necessary in connection with the above.

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

Chancellor Block stated that the proposed Luskin Conference and Guest Center (Conference Center) was made possible by the prior year's $100 million gift from Meyer and Renee Luskin. One-half of this gift endows the Luskin School of Public Affairs; $40 million would fund the Conference Center; and $10 million would endow academic programs that would take place at the Conference Center. The Chancellor emphasized that no State or student tuition monies would be used to design, construct, equip, or operate the facility; the project would be funded by the Luskin gift and new revenues generated by the operation of the Conference Center. He reported that the project had been subject to intense internal and external scrutiny, having received multiple levels of review by both UCLA and the Office of the President. The overall purpose of the Conference Center is academic, with the goal of providing a state-of-the-art meeting and guest facility to foster the exchange of ideas. The Conference Center would enable UCLA to compete more effectively with other top-tier institutions for major academic conferences, and would be used by visiting faculty, alumni, donors, parents, patients and their families, international visitors, and dignitaries; the facility would also serve

University Extension, executive education, and continuing professional development programs. The Conference Center would not serve guests lacking an affiliation with the University and would not compete with local hotels for visitors who were not affiliated with UCLA.

UCLA Vice Chancellor Steve Olsen outlined the project scope. The site work would include demolition of Parking Structure Six at the center of campus. The Conference Center would include 250 guest rooms, 25,000 assignable square feet (asf) of meeting rooms, and a 160-seat casual dining facility with 60 seats outdoors. The lower level would include 125 parking spaces. An operationally and financially independent catering kitchen would be located on the lower level. The Gateway Plaza area in front of the Conference Center would strengthen the campus' main entrance.

Mr. Olsen reviewed the proposed financing for the project. The Conference Center and the parking structure together comprise an investment of $152 million. The $40 million Luskin gift, which is fully pledged, would represent 26 percent equity in the project. The balance would be financed by $112 million in external financing, or $450,000 per room in financing burden that would need to be supported by the facility's operating revenues. The project scope would also include financing for the catering kitchen of $7.2 million, which would be funded entirely by housing reserves. The catering operation would contribute to housing reserves and would draw its working capital from housing reserves. The $3.2 million funding for the Gateway Plaza would be entirely from parking reserves, opportunity funds, and short-term interest earnings. The total investment would be $162 million.

Mr. Olsen discussed the project's financial feasibility. The Conference Center would be operated as a self-funded auxiliary, as part of an organization that already includes two existing UCLA-owned and operated guest facilities, the UCLA Guest House and the UCLA Lake Arrowhead Conference Center. UCLA also operates the 100-room Tiverton House patient guest facility, under the management of the UCLA Health System. The proposed debt structure would include $80 million in tax-exempt financing at six percent, which is the feasibility rate currently used by the University, although that rate is significantly higher than the current market. The debt structure also includes $32 million in taxable century bonds; these bonds have been sold at a cost of 4.95 percent. Mr. Olsen characterized the financing terms as extremely competitive. He stated that the model assumes an occupancy rate of 70 percent, based on analysis of the local hotel market and a survey of demand from UCLA's internal users. The estimated room rate would be $185 per night, compared with the average rate in the local hotel market of approximately $220 per night. A $10 million portion of the Luskin gift would endow an operating fund, whose annual proceeds of approximately $500,000 would be used to subsidize academic conferences. The Luskin facility and the overall auxiliary enterprise would generate free cash after operations and debt service in the first year.

Mr. Olsen turned to the interaction of the proposed Conference Center with UCLA's parking enterprise, since the proposal includes the demolition of Parking Structure Six. He stated that UCLA's Transportation Demand Management Program has been successful in reducing the number of vehicle trips to campus over the past 20 years, resulting in a current modest surplus of on-campus parking inventory. The campus believes that the spaces lost by demolition of Parking Structure Six could be accommodated in the existing inventory of 8,000 parking spaces within a five-minute walk of the proposed Conference Center. Mr. Olsen acknowledged that there could be a loss in daily parking pass revenue, but revenue from the Conference Center would more than replace any lost parking revenue. He noted that Parking Structure Six is 32 years old and has a remaining useful life of 12 to 13 years.

Regent Wachter stated that the project is currently conceived as one that the campus would build and operate, and asked whether other models had been considered for building or operating the facility. The Conference Center could lose money if the revenue projections prove overly optimistic. He commented that there could be other models for development where the University would not be at risk, the hotel and conference center could still be developed, and the University could be guaranteed some income. Mr. Olsen responded that the campus has not made any final decisions regarding the operating or development model. The campus is confident it could own and operate the facility under the current proposal, since it already operates other guest facilities on campus and has the requisite infrastructure and expertise. Mr. Olsen said the campus would examine any advantages that third-party developers could bring to the project. Any operator would have to be able to accommodate the primarily academic use of the facility. It is important to UCLA's faculty that the facility's rate structure be affordable.

Regent Newsom noted the opposition to the project from local hotels, who feel they would be at a competitive disadvantage if the Conference Center would be exempt from the Transient Occupancy Tax (TOT) and Unrelated Business Income Tax (UBIT). The local hotels argue that UBIT exemptions are afforded only for campus-related activity, and have disputed the campus' figures for the amount of activity at the Conference Center that would fall into that category. Regent Newsom also asked how the campus would respond to questions that approving the current item would be premature since the provisions of the California Environmental Quality Act (CEQA) have not yet been met.

Mr. Olsen responded that the campus currently manages similar issues about the UBIT in their management of the Tiverton House, the UCLA Guest House, and the UCLA Lake Arrowhead Conference Center. He stated that the campus would not be operating in the same market as the private hotels, although there would be some crossover. Group business is only a small portion of the private hotel business in the Westwood area. The intended market of the proposed Conference Center would be largely group business associated with UCLA-sponsored campus activities. Mr. Olsen expressed hope that the Conference Center would be successful in attracting new group business and that local hotels could benefit from that through increases in their occupancy rates.

Regent Newsom said that there is a prescriptive process required by the City regarding the TOT exemption. He commented that PKF Consulting USA's market analysis performed for UCLA asserted that the Conference Center's non-campus-related activities could yield favorable revenue generation. He asked how the campus would reconcile this apparent discrepancy between planning for non-campus-related activities and the requirement for exclusion from the TOT that activities be campus-related. Regent Newsom said opponents of the project also questioned the campus' record-keeping about this issue at UCLA's existing guest facilities. Mr. Olsen responded that the purpose of the guests' visits to campus would be monitored closely. He confirmed that the Conference Center would be focused on group business or transient occupancy directly related to University business. He expressed his view that the University's exemption from TOT has been well-established in relation to its other guest facilities.

Regarding opponents' concerns about compliance with CEQA provisions, General Counsel Robinson stated that compliance hinges on whether the decision regarding the current item would represent an irrevocable commitment to the project. Under longstanding UC policy, an irrevocable commitment would be made when the project comes before the Committee for design approval.

Committee Chair Makarechian asked why the University would build a hotel in the current real estate market when hotels can be purchased at 60 to 70 percent of replacement cost. He acknowledged the advantages of having $50 million free equity from the Luskin gift and tax-free funding that would be unavailable to a private developer. He asked whether the gift funds were specifically linked to this site, or whether the gift and the advantageous financing would be transferable to another option, such as purchasing a hotel in the area. Mr. Olsen responded that the $100 million Luskin gift specified $50 million for the Conference Center, but did not specify a project site; however, the donors strongly prefer the proposed site. The campus examined site alternatives, including an earlier option to build at the site of the UCLA Faculty Center, which was opposed by UCLA's faculty. Chancellor Block commented that the Conference Center's main attraction would be its integration of conference space and rooms on campus to facilitate communication among participants. Having the Conference Center on campus would also make it much easier for conference participants to visit laboratories or other campus sites.

Committee Chair Makarechian commented on the relatively small size of the proposed Conference Center, which he said was only the size of a ballroom of a typical hotel. He asked what would differentiate this project as a conference center from a typical hotel. Mr. Olsen responded that the proposed scope is for 25,000 asf of meeting space on the first and second floors, including a large main conference room on the first floor. The entire second floor would contain meeting rooms of various sizes. He stated that this provides more space than typical hotels in the Westwood area. The proposed Conference Center would provide approximately 100 asf of meeting space per guest room. He acknowledged that some guidelines call for 125 asf of meeting space per guest room, but stated that the Conference Center would be adjacent to other meeting room space on campus.

Committee Chair Makarechian expressed his view that the $600,000 per room cost of this project would be very high, given that a typical four-star hotel in the area could be purchased for an amount around $300,000 or slightly more per room. He asked whether the campus could find a hotel in the area to purchase at a lower cost. Mr. Olsen responded that, because of the Luskin gift, the amount of debt that would have to be serviced would be approximately $450,000 per room. He stated that the key benefit of developing the proposed Conference Center would be its location in the middle of campus in order to meet the needs specified by UCLA's faculty.

Committee Chair Makarechian asked why the campus would tear down an existing 600-space parking structure, which UC paid approximately $40,000 per space to build. He also asked if there are any commitments that would have to be paid to anyone managing the parking structure, or any other management contracts relating to the parking structure. Mr. Olsen stated that the University has no obligations relating to the parking structure. The acquisition cost of the parking structure in 1980 was $6 million; the structure is 32 years old and has a useful life of 45 years. The campus currently has excess parking inventory in close proximity to Parking Structure Six, since the number of car trips to campus has been reduced by 20 percent since 1990. Committee Chair Makarechian stated that the Conference Center would add traffic to the area. Mr. Olsen stated that the traffic effects would be studied in the Environmental Impact Report, which would be brought to the Committee before the construction and bidding process would commence.

Regent Wachter asked whether the campus could purchase the W Los Angeles-Westwood Hotel and, if so, whether the campus would still receive the $40 million gift. He asked how the cost of such a purchase would compare with the cost of building a center and losing the parking garage. Regent Wachter said that the W Hotel had been for sale the prior year for less than $700,000 per room. He inquired whether there could be another option that may be less optimal than having a conference center in the middle of campus, but would still be a good option that would make more economic sense. Mr. Olsen commented that the location of the W Hotel would not be as convenient as the central location of the proposed Conference Center, particularly for the Anderson School of Management, which would be a major user of the Conference Center. Mr. Olsen also stated that the rates at W Hotel would not be competitive for academic conferences. Regent Wachter stated that, in the current market, hotels with a cost of $650,000 per room are not being constructed, when hotels can be bought for $350,000 per room. Committee Chair Makarechian stated that a central question would be whether the financing and the gift funds would be transferrable if the Conference Center would be developed at a different site. Regent Wachter acknowledged that the best course for the long-term interests of the campus might be to develop the Conference Center as proposed, even if it would not be the most economical option. Mr. Olsen stated that the adequacy of any hotel proposed for purchase would have to be considered. The W Hotel has some meeting rooms, but not the quantity or the type necessary; additional facilities would have to be constructed outside of the footprint of the hotel's tower.

Mr. Olsen stated that the cost of the Conference Center itself and the parking contained within it, the restaurants, all amenities, site preparation, and the demolition of parking Structure Six would be $131 million, or $525,000 per room, of which $450,000 per room would be financed.

Committee Chair Makarechian asked how the campus arrived at its figures for projected revenue and whether the revenue projections included sources other than room rental. Mr. Olsen stated that the revenue figures were based on the anticipated level of demand, as well as surveys of UCLA's internal projected users of the facility, and enumerated other sources of revenue, such as parking and conference charges.

Committee Chair Makarechian commented on the $13 million in projected funding assumed to be available from the operating revenue of existing campus guest facilities for the financing of the proposed Luskin Conference Center. He asked how these funds are currently allocated and if using these funds for the proposed Conference Center would have any effect on the net operating funds for the UCLA campus. Mr. Olsen replied that the UCLA Guest House and Lake Arrowhead Conference Center are currently self-funded auxiliary operations that retain their earnings, and are not subsidized by the campus or contributing their earnings to support other campus programs. The proposed Conference Center would be added to that existing auxiliary enterprise, with the expectation that it would generate retained operational earnings. Mr. Olsen said that the earnings from the other two facilities would not be necessary to generate the cash flow needed to justify the investment. The inclusion of the other two guest facilities would help the campus broaden its debt service coverage.

Mr. Olsen stated that the proposed Conference Center itself would contribute to UCLA's academic program by expanding the campus' ability to conduct academic conferences. The current proposal does not assume that the campus would earn a financial dividend from the operation of the Conference Center, although this could be reevaluated in the future.

Regent-designate Stein asked if the $50 million gift to the UCLA School of Public Affairs was dependent on building the Conference Center. Mr. Olsen responded that the commitment to the donors was for both the School of Public Affairs and the Conference Center.

Regent Ruiz expressed concern about the financial impact the proposed Conference Center could have on local private hotels. He questioned whether the Conference Center could meet the projected 70 percent occupancy rate, which would translate to 175 rooms a day. He asked for information on which this projection was based. Regent Ruiz also expressed concern, given the limited amount of space available on the UCLA campus, about using such prime campus space to build a hotel.

Committee Chair Makarechian expressed his view that the Committee needs more information about the project. He stated that approval might be sought for funding for only drawings at this time, and further approval could be sought after the Committee has had time to evaluate further information. He specifically asked for a business case analysis, including information about the availability of hotels for purchase in the area, and other possible space for development along the perimeter of the campus.

Faculty Representative Powell stated that, when he has organized conferences, often the conference rooms are included without charge with a minimum number of room rentals. Mr. Olsen responded that package deals would depend on the rate; the $185 rate would be an average rate. Faculty Representative Anderson added that the amount of money that can be raised to sponsor academic conferences is often quite small, and the organizers are dependent on the individual participants' securing funding from their home institutions for travel and hotel expenses. The funds available to rent meeting rooms is also very limited; for this reason, meetings are often scheduled in university facilities for nominal payment. While an executive M.B.A. program might have funding for such expenses, most academic departments would have much smaller conference budgets. He asked whether this factor had been considered in the revenue projections. Chancellor Block responded that the $10 million portion of the Luskin gift would support conferences at the Center. Mr. Olsen added that nearby University facilities could be used at a lower cost for some meetings. Mr. Anderson stated that the gift would subsidize only $1,500 per day. He noted that typical conferences he has attended have 50 to 100 participants, which would not come close to filling the hotel rooms of the proposed Center. Two or three conferences would have to be scheduled simultaneously to fill the space. He asked whether this had been considered in the revenue projections.

Regent De La Peña expressed his agreement with Mr. Anderson's comments. He noted that the budget includes $33 million in current profit from other UCLA guest facilities that would be put into this project, and asked how these funds are currently spent. He also asked whether the Conference Center would be the best use of these funds.

Regent Wachter asked for clarification of the total cost of the project. Mr. Olsen replied that the Conference Center, including its equipment, would cost $141 million; the parking within the facility would cost $10.5 million; the Gateway Plaza would cost $3.2 million; the unrelated catering operation would cost $7.2 million. The Luskin gift and the debt would be applied to the Conference Center and parking; the cost of those two facilities combined would be $152 million, of which $112 million would be debt, with $40 million from the gift, giving the University a 26 percent equity investment. The Gateway Plaza would be funded from parking reserves and campus opportunity funds; the catering operation would be supported by returned funding from its own operation. Regent Wachter asked whether these funds were currently used for some other purpose. Mr. Olsen replied that the funds have not been used for other purposes in the past.

Committee Chair Makarechian expressed his view that, with so many outstanding questions, the committee would not move forward with approval of the entire amended budget at the current time. Mr. Lenz pointed out that the item would be brought back to the Committee for design approval, and that outstanding questions could be answered at that time. Mr. Lenz proposed various amounts for design development, but no amount was agreed upon.

3. **UNIVERSITY OF CALIFORNIA CAPITAL PROGRAM: MONITORING PROGRESS AND PERFORMANCE**

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

Committee Chair Makarechian thanked Vice President Lenz for his office's work on the spreadsheet containing information on active major capital projects.

Mr. Lenz stated that a process regarding capital projects was in place, defining campus responsibilities for individual projects and including development of a business case analysis. This process would help bring important issues regarding complex projects to the Regents' attention. He stated that 90 percent of projects are completed within budget and scope, and on time. The remaining ten percent of State and non-State-funded projects could have problems ranging from delays in sale of general obligation or lease revenue bonds, to other unique circumstances. Under the Pilot Phase of Process Redesign for Capital Improvement Projects, approved by the Regents in March 2008, 57 projects have been approved over the past 18 months. Nearly all projects were received, reviewed, verified, and sent back to campuses for the chancellors' signatures within 15 days. This pilot program is scheduled to extend through March 2014. With the help of several Regents, the Best Value Pilot Program for the selection of contractors for projects of more than $1 million has been expanded to all campuses for five years. Campus personnel must receive training to be eligible for this program. Under the Working Smarter program, project metrics are reviewed for best practices for possible cost savings at the campus level. Mr. Lenz stated that an early notification process regarding projects of high interest would bring such projects to the Regents' attention early in their development.

Committee Chair Makarechian stated that the information provided in the spreadsheet entitled *2010-11 Active Major Capital Projects Report* distributed at the current meeting would be most helpful to the Committee. He asked that Mr. Lenz's office add information about projects for the upcoming two years, the type of financing for all projects, and the names of each project's contractor and designer.

Regent Schilling asked that the Capital Improvement Program threshold figure of $60 million be increased annually by the Consumer Price Index. Committee Chair Makarechian stated that since the program was currently a pilot program, it would be appropriate to include the proposal to increase the threshold to keep pace with inflation when the program would be considered for final approval.

The meeting adjourned at 3:20 p.m.

Attest:

Secretary and Chief of Staff