The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
July 16, 2013

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

Members present: Regents De La Peña, Feingold, Flores, Makarechian, Ruiz, Schultz, and Zettel; Advisory member Jacob; Staff Advisors Barton and Coyne

In attendance: Regents-designate Engelhorn and Leong Clancy, Faculty Representative Powell, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice President Stobo, Vice President Lenz, Chancellor Khosla, and Recording Secretary McCarthy

The meeting convened at 3:45 p.m. with Committee Chair Makarechian presiding.

1. PUBLIC COMMENT

Committee Chair Makarechian explained that this was the opportunity for members of the public to address University-related matters. The following person addressed the Board concerning the items noted:

Mr. Jonathan Ly, University of California Student Association University Affairs Committee Chair and UC Merced alumnus, expressed his appreciation for the funding of the UC Merced classroom and academic office building. He particularly thanked Vice President Lenz and the Grounds and Buildings Committee for their support of Chancellor Leland’s efforts to expand the campus, and urged the Regents to continue to support further growth of the Merced campus.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 15, 2013 were approved.

3. APPROVAL OF THE BUDGET, APPROVAL OF EXTERNAL FINANCING, AND APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO CALIFORNIA ENVIRONMENTAL QUALITY ACT, INFILL APARTMENTS REPAIRS, SANTA CRUZ CAMPUS

The President recommended that:

A. The 2012-13 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:
From: Santa Cruz: Infill Apartments Repairs - Preliminary Plans - $996,000, to be funded from Colleges, Housing and Educational Services (CHES) Auxiliary Reserves.

To: Santa Cruz: Infill Apartments Repairs - Preliminary Plans, Working Drawings, and Construction - $32,982,000 to be funded from CHES Auxiliary Reserves ($7,982,000) and External Financing ($25 million).

B. The scope of the Infill Apartments Repairs project shall be to repair construction defects, including scope triggered by the repairs, in 17 student apartment buildings (148 apartment units, with a current total of 742 beds) constructed as a result of the Infill Apartments project at Cowell, Stevenson, Porter, and Kresge Colleges.

C. In conjunction with the Regents approving Recommendations 1 and 2 herein, the Regents:

1. Find that the project is categorically exempt under California Environmental Quality Act Guidelines Section 15301, Class 1 Existing Facilities.

2. Approve the design of the Infill Apartments Repairs project, Santa Cruz Campus.

D. The President be authorized to obtain external financing not to exceed $25 million to finance the Infill Apartments Repairs project. The President shall require 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 Santa Cruz 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 provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Vice President Lenz stated that this item involved repairs to 148 apartment units providing 742 beds in 17 buildings in the Infill Apartments at Cowell, Stevenson, Kresge, and Porter Colleges at UC Santa Cruz. The Infill Apartments were completed in 2004 at a cost of $61 million. The proposed repair project would correct construction defects in the buildings that have suffered water damage caused by the failure of the buildings’ exterior
waterproofing systems and faulty shower assemblies. Mr. Lenz said the University was currently in litigation seeking recovery for the damages. This item requested approval of a project budget of $32,982,000 to be funded from almost $8 million from the College Housing and Educational Services and Auxiliary Reserves, and $25 million from external financing. The item also requested approval of the findings that the project would be categorically exempt from the California Environmental Quality Act (CEQA) and of the design of the Infill Apartment repairs.

Chancellor Blumenthal said this $32 million project was to begin urgent repairs to apartments spread across four colleges at UC Santa Cruz. The project would correct construction defects caused by extensive water damage because of the failure of the buildings’ exterior waterproofing systems and faulty shower assemblies. The campus is in litigation to recover the cost of the damages associated with the construction defects. The campus is requesting approval of the $32 million project budget, the findings that the project is categorically exempt from CEQA, and project design. The project would be for replacement of elements of the exterior, including, stucco, windows, and damaged structures, defective shower areas in bathrooms, mechanical ventilation deficiencies, and other defects. Chancellor Blumenthal emphasized the size of the project, with 163,000 square feet, or nearly four acres, of exterior wall surface to be repaired, including 1,100 windows, and 246 bath and shower assemblies. While extensive forensic investigation had been accomplished and the budget contained built-in contingencies, additional damage may be encountered during construction. The project should be accomplished as soon as possible to avoid further damage and control costs of the ultimate repair, to ensure building integrity and a safe learning environment for students, to comply with the campus’ Long Range Development Plan housing commitment, and to minimize lost housing revenue.

Chancellor Blumenthal said the project would be done in two phases, beginning with the Stevenson and Kresge College buildings, which are the most compromised. Displaced students would be accommodated in triple rooms by adding beds to existing student residences. He expressed his view that the proposed project was the most effective alternative and would provide long-lasting, safe apartments for students.

Campus Architect John Barnes provided additional details about the project to repair buildings that had been completed nine years prior in a single construction project with Devcon Construction, Inc. at a total cost of $61 million. The affected buildings are three- and four-story wood-framed and stucco with oriented strand board (OSB) sheathing. Since the fall of 2001, the campus has undertaken a series of forensic investigations, starting with shower assembly construction defects. These investigations led to discovery of more extensive water intrusion at the buildings’ exteriors. The project would repair or replace the waterproofing systems including the windows and faulty exterior OSB sheathing, repair all structural deficiencies in compliance with current code, repair all faulty shower assemblies and water-related damage, and repair the mechanical exhaust systems to improve bath and shower ventilation. Landscape disturbed by repair activities would be replaced. Construction of the first project phase on the Stevenson and Kresge College buildings would commence in mid-August 2013, with anticipated completion in
June 2014; the second phase would commence in the summer of 2014 and be completed May 2015.

Mr. Barnes displayed slides showing typical damage, such as rot and degradation from water intrusion through the building paper into the OSB sheathing, which is a critical element of the seismic structural support of the buildings. In some areas, water migrated farther into stud wall cavities causing additional damage. At Stevenson College there are areas where sheathing and portions of studs can be removed by hand. In buildings to be addressed in phase two, the damage has not progressed as far, although there are areas of serious decay. Defects in the original construction, such as missing or misplaced shear nailing, missing studs, or hold-down cap nuts that are not engaged, would affect the buildings’ structural performance during a seismic event. In May the campus completed a detailed seismic analysis according to UC policy and concluded that the seismic ratings for some of the buildings had dropped to a level requiring remediation. Forensic investigations have uncovered similar systemic structural problems in both phases of the project.

Mr. Barnes said the project is being structured to correct all defects. After early removal and investigation of the phase one exterior assemblies, final scope adjustments will be made prior to bidding to reduce the risk of unforeseen conditions and potential change orders during construction. In phase one at Stevenson College, the base scope includes removal and replacement in kind of all stucco sheathing and windows, reflecting the findings of the forensic reports that these buildings have sustained the greatest water damage. In both phases, construction documents include alternatives using more up-to-date waterproofing systems and other options, such as the use of plywood instead of OSB sheathing or the use of a fluid-applied air/moisture barrier to improve the overall performance of the buildings’ envelopes. For phase two repairs at Porter College, the base bid would include only partial removal of stucco, but an alternate bid that the campus plans to accept would include full removal and replacement of stucco to ensure that the exterior assemblies are fully restored and warranted. Further adjustments to base and alternate scopes might be made in both phases to reflect additional discovered conditions and the project budget is structured to allow this flexibility. Structural deficiencies would be repaired to current code requirements and all interior shower and bath assemblies, and mechanical deficiencies would be corrected.

The exteriors of all buildings would be restored to their original design. Minor improvements to the exteriors, including revisions to sheathing where necessary, stucco underlayment and detailing, and window systems, would improve weather resistance. At Stevenson College, where the buildings are most exposed to the weather, architectural profiles would be improved to resist water intrusion; canopies would be added at entries and minor adjustments would be made to the most exposed facades.

Because of its limited scope, the project is not eligible for Leadership in Energy and Environmental Design certification, but will include sustainable features to the extent feasible. The project has been analyzed according to CEQA requirements and is categorically exempt.
Committee Chair Makarechian said that an eight percent cost for design typically included full design of a project. He asked why the architectural fee was eight percent for this project that involved mainly replacement of materials with no changes to the structure or floor plans. He also asked about the average size of the apartment units. Mr. Barnes said the average size of the two-bedroom, four-occupant apartments is 900 square feet. Committee Chair Makarechian questioned the project’s cost per unit for the limited scope of repairs to apartments of that size and requested further details. Mr. Barnes said the amount of the architectural fee is partly because of the need to accomplish the project on an accelerated timetable. The scope of damage was discovered only the past winter; the design phase began in April and has been moving quickly to allow the campus to undertake the repairs over the course of the upcoming academic year. The design professional had to assign sufficient staff to accomplish this schedule. Each of the 17 buildings has a different design and conditions that must be analyzed. Committee Chair Makarechian noted that some components such as windows would be standard, and asked if the design fee also included destructive testing. Mr. Barnes said that the design included a demolition package, involving the complicated removal of the exteriors. Committee Chair Makarechian asked how much of the design fee had been spent already. Mr. Barnes responded that all of the design development had been completed for phase one and 50 percent for phase two; he would provide information about the portion of the fee that had been spent. In response to a further question from Committee Chair Makarechian, Mr. Lenz said that this project had been brought to the Committee previously for preliminary plan funding approval so the campus could better assess the extent of the damage. Mr. Barnes said the design would also involve extensive mechanical ventilation issues, gutting and repair or replacement of showers and bathrooms, and at least 56 areas of structural deficiencies. Four structural engineers had been assessing the buildings’ structures. Mr. Barnes said that, while the design fees may appear high, the design would provide the protection of an understanding of the scope of damage and the level of construction defect. The campus would have a set of design documents that could be used to elicit bids in the fall.

Committee Chair Makarechian emphasized the importance of selecting a contractor who would carry full insurance so that the University would be insured going forward against construction defects. He asked that General Counsel Robinson make sure that would be the case with this project. Mr. Barnes said the campus was consulting closely with counsel on that issue.

Regent Ruiz asked about housing for the students displaced during the repairs. Mr. Barnes said that the 315 students displaced during phase one would be offered beds in other campus student housing in doubles that would be turned into triples.

Committee Chair Makarechian recommended amending the action as follows: (1) the campus will hire an outside inspector for the project in addition to campus inspectors; and (2) the project general contractor will carry full insurance that covers its work and includes acceptance of prior work performed.
Upon motion duly made and seconded, the Committee approved the President’s recommendation as amended and voted to present it to the Board.

4. **UPDATE ON UC SAN DIEGO HEALTH SYSTEM STRATEGIC PLAN, SAN DIEGO CAMPUS**

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

Vice President Lenz said this discussion would update the Committee on the UC San Diego Health System’s Strategic Plan as background for a proposed action in the subsequent item to augment the budget for the expansion of the East Campus Bed Tower. The campus is planning to bring another action item for construction of a $95 million Outpatient Pavilion to the Committee at a future meeting. The UCSD Health System faces growth in patient population and a changing state and federal environment around health care reform, and proposes expansion of its medical services area, increasing faculty positions, medical research, and capital facilities projects.

Committee Chair Makarechian expressed his understanding that UCSD Health System’s Strategic Plan should be presented first to the Committee on Health Services and then the Committee on Grounds and Buildings would consider any capital improvement projects. Mr. Lenz said that the Strategic Plan was being discussed before the Committee on Grounds and Buildings to demonstrate the need for the capital facility projects. Regent De La Peña agreed with Committee Chair Makarechian’s comments and said the Strategic Plan had not been considered by the Committee on Health Services. Regent Ruiz commented that planning for the UCSD Health System had been brought to the Regents several years prior and the current discussion item would be an update. Mr. Lenz said the current update focused on the request to augment funding for the East Campus Bed Tower and the future proposal for development of the Outpatient Pavilion.

UC San Diego Health System Chief Executive Officer Paul Viviano said the UCSD Health System had sustained extraordinary growth over the prior seven years as a result of the success of its last Strategic Plan. To prepare for health care reform and the growth enabled by the Jacobs Medical Center, the campus would update the Committee on the direction of its efforts. Vice Chancellor and Dean of the UCSD School of Medicine David Brenner noted that *U.S. News and World Report* had announced this day that the UCSD Medical Center was ranked first among hospitals in San Diego and fifth in California, and was named outstanding in ten areas; the UC San Diego School of Medicine was ranked fifteenth research-intensive medical school in the nation. He enumerated other outstanding ratings the Medical Center has received.

Mr. Viviano said the UCSD Health System faces the challenges of a competitive and changing health care environment. Coverage for the previously uninsured through dramatic Medi-Cal expansion and the new insurance exchange, Covered California, would affect the Health System favorably. Current estimates indicate that approximately 400,000 San Diego County residents will gain health care insurance; the UCSD Health
System is beginning to develop the infrastructure to care for those patients and to manage the risk of caring for this previously uninsured population who had likely not received regular routine care. The market for health care in San Diego County is competitive, with four major health systems accounting for three-fourths of the health care of the County’s three million residents. Consolidation is likely to continue largely because of health care reform. Growth will also be accelerated by the ability of small employers to access coverage through the insurance exchange.

The UC San Diego Health System has operated at full capacity for the past 12 months, continuing to grow and expand its market share. Mr. Viviano displayed statistics showing growth of the past three years in the numbers of patients treated in areas of focus including cancer, cardiovascular, and advanced surgical care. The Strategic Plan concentrates on market drivers including reduced reimbursements from government and commercial payers, consolidation of health care networks, increased focus on quality, cost, and outcomes, and a shift to outpatient procedures.

Mr. Viviano displayed a map showing the geographic footprint of the UCSD Health System. Most inpatient services are provided at the UC San Diego Medical Center hospitals in Hillcrest and La Jolla; the reach of outpatient services has been expanded throughout San Diego County, with cancer and cardiac care at Encinitas, primary care services at Vista, Scripps Ranch, Kearny Mesa, and Chula Vista, which also offers cancer care. The Strategic Plan would allow investment in these areas, expansion of the geographic footprint, and provision of more primary and specialty services at existing locations.

Mr. Viviano gave a brief overview the Health System’s facilities. The 392-bed Hillcrest Medical Center contains a comprehensive stroke center, a regional burn center, a Level One trauma center, a Level Three neonatal intensive care unit, and a holistic birth center. The La Jolla campus contains the 199-bed Thornton Hospital, which is a general medical/surgical facility, the Sulpizio Cardiovascular Center with 54 beds, the Moores Cancer Center, and the renowned Shiley Eye Center. The ten-story Jacobs Medical Center, scheduled to open in mid-2016, will include the Hospital for Advanced Surgery, the Hospital for Cancer Care, and the Hospital for Women and Infants, in addition to the Thornton Hospital. The La Jolla campus would then have 418 beds, which is anticipated to accommodate the Health System’s growth over the next several years.

The UCSD Health System needs more space for outpatient treatment, a profitable area of growth. The proposed Outpatient Pavilion on the La Jolla campus would drive outpatient and inpatient volume, consolidate disease-specific centers in one facility, co-locate ancillary services needed to treat patients, and provide access and continuity for patients and UCSD faculty.

Mr. Viviano summarized the UCSD Health System’s vision to create a healthier world, one life at a time, though new science, new medicine, and new cures. Themes of focus are growth, quality, a culture of excellence, academic and research preeminence, and strong financial performance. The Health System identified clinical service programs it
believes can continue to grow at a dramatic pace, including cancer, neuroscience, women and infants, cardiovascular, surgical services, ophthalmology, orthopedics and sports medicine, and urology. Other programs have been identified for sustained growth in the future. Dr. Brenner displayed slides of aerial views depicting the growth of the La Jolla campus since 2008 and projected until 2016.

Mr. Viviano said the Strategic Plan identifies methodologies to sustain strong financial performance. The Health System’s strong cash flow and net income over the past several years is projected to continue during the period of construction of the Jacobs Medical Center. It is anticipated that financial performance will deteriorate slightly in 2017 when the new debt service would begin and several hundred new employees would be added, and that performance would rebound to prior profitability by 2019. The Health System has committed to reducing operating costs by $200 million over the upcoming three years. The system’s days of cash on hand has improved dramatically over the past two quarters and Mr. Viviano anticipates days of cash on hand to be in the high 50s at year’s end.

Committee Chair Makarechian reiterated that an approval of an individual building project that is part of the Health System should follow review of the Strategic Plan by the Committee on Health Services. Mr. Viviano said he would be happy to present to both Committees.

Chair Makarechian suggested that the information about financial performance should be placed earlier in the written materials sent to the Committee, since that information is so important. He pointed out that days cash on hand is projected to drop below 30 days in 2017, which would necessitate some covenant changes; the projected 2017 total margin of 2.5 percent is not comfortable. It would not be sensible to construct buildings that would not pay for themselves. Mr. Viviano agreed that the financial performance is a major focus.

Regent Schultz asked whether the pro forma for financial performance incorporated the uncertainties associated with the Patient Protection and Affordable Care Act (PPACA). Mr. Viviano responded that the financial projections had been updated recently with all forecasts for the PPACA.

Regent Feingold asked that, when the UCSD Health System Outpatient Pavilion is brought to the Committee for approval of preliminary plans funding, the financial data include both the risk of proceeding with the project, and the risk of not expanding and developing the Outpatient Pavilion.

5. **AMENDMENT OF THE BUDGET AND AMENDMENT OF EXTERNAL FINANCING, UCSD MEDICAL CENTER EAST CAMPUS BED TOWER, SAN DIEGO CAMPUS**

The President recommended that:
A. The 2013-14 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: UCSD East Campus Bed Tower – preliminary plans, working drawings, construction and equipment – $697.9 million to be funded from external financing ($356.8 million), gifts ($131 million), hospital reserves ($106.1 million), Children’s Hospital Bonds ($69 million), and capitalized leases ($35 million).

To: San Diego: UCSD East Campus Bed Tower – preliminary plans, working drawings, construction and equipment – $839,360,000 to be funded from external financing ($500 million), gifts ($131 million), hospital reserves ($104,360,000), Children’s Hospital Bonds ($69 million), and capitalized leases ($35 million).

B. The project scope of the UCSD Medical Center East Campus Bed Tower will include: new bed tower of approximately 512,500 gross square feet (gsf) with 245 beds and 14 operating rooms, a new stand-alone central plant of approximately 39,300 gsf, and renovation of approximately 65,400 gsf in the existing Thornton Hospital.

C. The President be authorized to obtain external financing not to exceed $500 million to finance the UCSD East Campus Bed Tower project. The President shall require 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, UC San Diego Health System gross revenues shall be maintained in amounts sufficient to pay the debt service and 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 execute all documents necessary in connection with the above.

E. The President shall require a remediation plan of action by UC San Diego Health System if their quarterly and/or annual financial results show a level below 60 days cash. Should the level of days cash drop below 30 days, the President shall require the San Diego campus to replenish the Health System’s reserve to a 30-day minimum cash threshold for that quarter and on a going-forward basis.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]
Vice President Lenz said that the Committee had been updated on the UC San Diego Health System’s Strategic Plan in the prior discussion item to establish the background for this proposal.

UC San Diego Health System Chief Executive Officer Paul Viviano said the Health System’s ability to sustain the growth and improvement in its financial performance and ability to gain market share depended on enhancing its facilities and led to the request for approval of the Jacobs Medical Center several years prior. Currently the Health System’s facilities are full and Mr. Viviano expressed confidence that the Jacobs Medical Center would be filled more quickly than had been anticipated. As a result of cost overruns and increases in mandated requirements from the California Department of Public Health, only 60 percent of the Medical Center could be completed, which would affect its ability to take advantage of growth opportunities. Market conditions are currently favorable for issuing debt, making it advantageous at the current time to complete the Jacobs Medical Center in a single phase by issuing additional debt. Given the UCSD Health System’s growth trajectory, Mr. Viviano is highly confident that the Jacobs Medical Center will be filled within the first few years of its opening. Issuing an additional $140 million of debt would cost $7 million per year in incremental interest and principal payments. He anticipates that after the first few years, development of the Jacobs Medical Center would allow $20 million of annual incremental income. The UCSD Health System has added 50 faculty per year and is prepared to continue to do so, and its market share has increased.

Committee Chair Makarechian asked why it would cost $53 million to build out the space when the shell will have already been constructed. He also asked about the unanticipated agency mandates that required $31 million in cost overages. Mr. Viviano said the mandates included two additional elevators, reinforcement of structural steel, dedicated food transport hallways, and extensive expansion of the kitchen.

Committee Chair Makarechian asked for further explanation of $41 million for “bid overages and cost overruns due to bidding complexities” attributable to the campus’ difficulty finding local qualified trade firms available to bid on the construction. He asked why national contractors were not recruited, especially in the current construction environment. Acting Associate Vice Chancellor and Campus Architect Joel King explained that the $41 million portion of the cost increase identified for bid overages includes $4 million held in reserve for the 20 percent of the bid packages yet to be let. The project has ten separate entitlement packages going through a phased plan review with the Office of Statewide Health Planning and Development, in order to advance the project schedule by one year, which would save $500,000 per month. The bidding complexities were created by advancing the schedule. Committee Chair Makarechian noted that the written materials sent to the Committee indicated that some contractors refused to bid because they were occupied with other local hospital projects. Mr. King said that the bid coverage was affected by the fact that four hospitals were under construction concurrently in San Diego County. Committee Chair Makarechian responded that large contractors are available nationally and worldwide and questioned why local contractors would be paid more. Mr. King said that four major trades had been
pre-qualified and the majority of the overage is attributable to the mechanical, electrical, and plumbing (MEP) trades. MEP trades for hospitals are particularly difficult to obtain and several contractors who had been prequalified dropped out of the bidding shortly before bid day. Committee Chair Makarechian said this did not explain why bids were not sought from national contractors. Using a select group of local contractors would have the disadvantages of having to pay more and escalating the cost of future hospital projects. Mr. King said the campus did reach out nationally for qualified contractors. Committee Chair Makarechian stated that he would like more information about the outreach to contractors and methods of soliciting bids so that funds are not spent unnecessarily.

Regent Schultz asked if the campus had questioned the increased mandates that were responsible for a portion of the cost overages. Mr. Viviano said that some of the mandates were unprecedented, and had not been in effect for construction of the new UCSF Benioff Children’s Hospital, which is only 1.5 years ahead of the Jacobs Medical Center. Legal counsel at both the Office of the President and the campus questioned the mandates with the issuing authorities, but were told that compliance was necessary to obtain building permits.

In response to a question from Regent Zettel, Mr. Viviano said that the 52 beds in the Neonatal Intensive Care Unit (NICU) at the Jacobs Medical Center would be in addition to the only other San Diego County Level Three NICU at Rady Children’s Hospital, with which the UCSD Health System partners. The faculty at Rady’s are part of UCSD and would practice at both facilities. Vice Chancellor and Dean of the UCSD School of Medicine David Brenner added that UCSD is known for its high-risk pregnancy care. Regent Zettel asked whether the $69 million Children’s Hospital Bond would pay for the NICU. Mr. Viviano said it would cost approximately $150 million to build the NICU. Dr. Brenner said the Jacobs Medical Center NICU would greatly improve services to women in San Diego County. In response to a further question from Regent Zettel, Mr. Viviano stated that that three floors of the Jacob Medical Center would be dedicated for cancer care and combined with the Moores Cancer Center would offer an excellent treatment option for local residents who formerly might have had to travel long distances for treatment. Mr. Viviano noted that UCSD Health System has been successful in recruiting a large number of notable faculty.

Regent Zettel asked what part of the almost $41 million cost overage attributed to bid overages was for future bids. Mr. Viviano responded that only $4 million of that amount would be held for future bid overages; the balance is for existing overages.

Regent Feingold asked what percentage of market share would be necessary to ensure profitability. Mr. Viviano said he is confident that the addition of 245 beds would enable two percent growth in market share over the upcoming four years. He confirmed that none of the other hospitals in the County were adding beds. Regent Feingold asked what the financial projections would be if the new beds were not added. Mr. Viviano said that $15 million would be lost annually in net income. Given that the new capacity would be used quickly and the favorable market conditions for external financing, Mr. Viviano said
it would certainly be advantageous financially to complete the Jacobs Medical Center in a single phase. Regent Feingold asked whether, if financial assumptions proved to be incorrect because of uncertainties about the Patient Protection and Affordable Care Act, general campus revenue would be used to pay debt service on the hospital construction. Chief Financial Officer Taylor said it would be extremely unlikely that campus resources would be needed under any scenario. The University is very careful that financial liabilities of the medical centers is completely separate from the general campuses.

Committee Chair Makarechian noted the recommendation that the President be authorized to require a remediation plan of action by UCSD Health System should its cash reserves fall below a 60-day level and to require the San Diego campus to replenish the Health System’s reserve to a 30-day minimum cash threshold, should its cash reserves fall below that level. He asked if that was not also a federal requirement. Mr. Taylor said it was more of an expectation. Mr. Viviano agreed it was not a federal requirement. Mr. Taylor said that UC Medical Center debt is AA-rated, benefitting from the pooled credit of UC’s five medical centers and resulting in a lower cost of capital. In order to achieve this rating, the hospitals must have certain amounts of cash on hand. A $600 million pooled line of credit is available to any UC hospital, but it is important that the hospitals maintain sufficient cash on hand to maintain the debt rating. Mr. Taylor said that currently the President did not have the authority to order a remediation plan. It is helpful in discussions with the rating agencies to show that the Board is fulfilling its roll of active management and is vested with the necessary tools.

Regent De La Peña summarized that the Jacobs Medical Center project had been approved to be constructed 80 percent, but has been constructed only 60 percent and an additional $140 million would be required to build out the remaining 40 percent or 80 beds. He suggested that gift funds should be applied to the debt. Dr. Brenner said fundraising efforts have focused on the Jacobs Medical Center.

Regent Ruiz asked about the almost $41 million cost increase attributable to bid overages, which he said would seem to be a large amount for a $140 million project. Mr. King responded said the $41 million bid overages were on the $400 million base contract, with $4 million to be held in reserves. Mr. Viviano explained that the $41 million was already included in the 60 percent of the construction that had been completed.

Regent De La Peña asked whether projects must be brought back to the Committee if the overages exceed a certain amount. Mr. Lenz said that any increase over 25 percent must be brought back to the Regents for approval and the cost of all capital facility projects is reported annually. General Counsel Robinson agreed with Regent De La Peña’s interpretation that when the Committee approves a project budget, it would in effect be approving an additional 25 percent. Committee Chair Makarechian said this policy should be addressed. Mr. Lenz said that any change in project scope would be brought back to the Committee for approval. Regent Ruiz suggested that the Committee on Finance review the policy on augmentation of project funding. Mr. Robinson said his office could develop recommendations for a policy change, if desired. Mr. Taylor
clarified that any increase in external financing must come back to the Committee for approval.

Committee Chair Makarechian recommended amending the action by adding that, should the funding for construction of the project exceed five percent more than the budgeted amount, additional approval of the Committee shall be required.

Faculty Representative Powell asked if the Short Term Investment Pool (STIP) funds used to back-stop hospital project gifts committed but not yet in hand would be general campus STIP funds. Mr. Viviano answered in the affirmative and said there would be a plan in place to pay back the campus from UCSD Medical Center revenue.

Staff advisor Barton asked if the assumptions underlying the payer mix projections were based on changes expected under the PPACA. Mr. Viviano answered in the affirmative.

Regent De La Peña recommended amending the action further to require that gifts for the hospital project be applied to pay down the project’s external financing. Mr. Viviano pointed out the project budget includes donations of $130 million. He suggested that any donations over that amount could be used to pay down debt. Chancellor Khosla said that while he understood the intention of the suggestion he urged caution about restricting the ways in which gift funds could be most effectively used. Mr. Taylor said a fund functioning as an endowment could be set up with donor funds, while adhering strongly to Internal Revenue Service guidelines. Regent De La Peña withdrew the amendment.

Upon motion duly made and seconded, the Committee approved the President’s recommendation with the amendment that should the funding for construction of the project exceed five percent more than the budgeted amount, additional approval of the Committee shall be required, and voted to present it to the Board.

6. APPROVAL OF THE BUDGET AND APPROVAL OF EXTERNAL FINANCING, NIMITZ MARINE FACILITY BERTHING WHARF AND PIER REPLACEMENT, SAN DIEGO CAMPUS

The President recommended that:

A. The 2013-14 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: Nimitz Marine Facility Berthing Wharf and Pier Replacement – preliminary plans, working drawings, and construction – $25,053,000 to be funded from indirect cost recovery and campus funds ($9,840,000), external financing ($8,013,000), State funds ($5 million), and Nimitz Marine Facility reserves ($2.2 million). Any future non-State funding may be used to reduce the costs for this project pending the receipt of federal or State resources and/or gift funding.
B. The scope of the Nimitz Marine Facility Berthing Wharf and Pier Replacement (Project) shall be to replace the pier and wharf at the Nimitz Marine Facility, and replace and upgrade the necessary utilities, including electrical, telecommunications, fire alarm, potable water, compressed air and wastewater, and storm water management.

C. The President be authorized to obtain external financing not to exceed $8,013,000 for the Project. The President shall require 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 San Diego 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 execute all documents necessary in connection with the above.

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

Vice President Lenz stated that this proposal requests approval of $25 million to replace the more than 40-year-old Nimitz Marine Facility Berthing Wharf and Pier that has reached the end of its service life. Construction of the project would begin in 2014 with completion scheduled for December 2015. Financing would include $9,840,000 from indirect cost recovery and campus funds, $8,013,000 in external financing from an already issued Century bond, $5 million from State funds, and $2.2 million from Nimitz Marine Facility reserves. The campus is exploring some fundraising options for the project including additional gift and grant opportunities.

Regent Schultz asked about the source of the indirect cost recovery. Chancellor Khosla said the indirect cost recovery would come from the contracts and grants of the ships using the pier facility during its ongoing operation. Committee Chair Makarechian received confirmation that the indirect cost recovery amounts were based on current rates, not possible future rates.

Regent Zettel asked how costs for services such as water and internet for visiting research vessels would be recovered. UCSD Scripps Institution of Oceanography (SIO) Associate Director of Ship Operations Bruce Appelgate said the costs are recovered from visiting vessels. As a charter member of the University-National Oceanographic Laboratory System (UNOLS), which works to maximize the efficiency of the academic research fleet, SIO offers reciprocity to other UNOLS operators. These users are charged for services and utilities that they consume while in port.
Regent Ruiz asked whether the project would be just a replacement of existing structures or would include upgrades to ensure the pier’s serviceability into the future since it would not be rebuilt again for a long time. Mr. Appelgate said that the federal government is currently evaluating the direction of the academic research fleet, which has many vessels at the age to be retired. SIO won a competition to be awarded a new research vessel, the *Sally Ride*, which will be delivered in 2015, but the federal government is considering reducing the overall size of the research fleet. SIO is uniquely positioned to maintain its preeminent position. The plans account for the anticipated size of the future SIO fleet. Environmental permitting restricts the pier’s footprint over the water. Acting Associate Vice Chancellor and Campus Architect Joel King said the shore configuration would accommodate vessels with deeper drafts and the top deck of the pier would be raised two feet to address the potential rise in sea level. Other specific design elements would address emerging technologies in research vessels.

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

The meeting adjourned at 5:30 p.m.

Attest:

Secretary and Chief of Staff