The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
March 19, 2014

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

Members present: Regents De La Peña, Feingold, Flores, Makarechian, Ruiz, Schultz, and Zettel; Ex officio member Napolitano; Advisory members Jacob and Leong Clancy; Staff Advisors Barton and Coyne

In attendance: Regents Gould, Island, Kieffer, Reiss, and Sherman, Regents-designate Engelhorn and Saifuddin, Faculty Representative Gilly, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Vice Presidents Andriola, Brown, Duckett, and Sakaki, Chancellors Blumenthal, Desmond-Hellmann, Katehi, Leland, and Yang, and Recording Secretary McCarthy

The meeting convened at 1:35 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 22, 2014 were approved.

2. APPROVAL OF THE BUDGET AND APPROVAL OF EXTERNAL FINANCING, TOLMAN HALL SEISMIC REPLACEMENT, BERKELEY CAMPUS

The President of the University recommended that:

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

Berkeley: Tolman Hall Seismic Replacement – preliminary plans, working drawings, construction and equipment – $150 million, comprised of external financing serviced by campus funds ($75 million) and external financing serviced by State appropriations under the AB 94 mechanism ($75 million).

B. The scope of the replacement building shall be similar in use and total square footage to the existing Tolman Hall. The approval of the scope is contingent on the campus returning to the Regents with a more defined scope for their review and consideration.
C. The President be authorized to obtain external financing in an amount not to exceed $75 million. 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, the general revenues of the Berkeley campus shall be maintained in amounts sufficient to pay the debt service and to meet the 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 introduced the proposed project, construction of a new academic building of up to 230,000 gross square feet (gsf), to replace UC Berkeley’s 247,000 gsf reinforced concrete Tolman Hall, which had a seismic rating of “poor.” This project was a high priority for the Berkeley campus as part of its seismic remediation, and would provide modern instruction and research space. The campus proposed to finance 50 percent of the project’s budget with debt supported by campus funds and the remaining 50 percent through the new AB 94 process, formerly the State-funded process for capital facilities. The item requested approval of a budget of $150 million and approval of the external financing.

Committee Chair Makarechian asked for clarification of the AB 94 financing process. Mr. Lenz recalled that the State had not been providing any general obligation or lease revenue bonds for UC’s critical capital facilities projects that ordinarily would have received State-supported funding. A debt restructuring bill was passed by the Legislature as part of the State budget, providing a process by which the University could continue to submit its projects to the State for review and approval, and setting aside $15 million in the State’s 2014-15 budget as part of the first phase of debt financing for these projects. Thus, the debt service that had formerly been paid by the State now would instead be taken directly from UC’s general support budget. UC had approximately $87 million in projects in 2013-14 and, with the approval of this item, about $277 million in projects for 2014-15, for which the University had been waiting as long as five years for financing approval.

Committee Chair Makarechian asked what the University’s risk would be under this arrangement. Mr. Lenz responded that he saw no increased risk to the University, other than its overall amount of debt. He added that these projects were carefully prioritized and only the most important were brought forward, such as this critical seismic project.
His office was carefully reviewing the University’s capability for future projects and might recommend a moratorium on State-supported projects until the State puts a general obligation bond on the ballot.

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

3. **CONFORMING AMENDMENT OF THE 2014-15 BUDGET FOR STATE CAPITAL IMPROVEMENTS**

The President of the University recommended that, subject to the concurrence of the Committee on Finance, the amended 2014-15 Budget for State Capital Improvements be approved, as shown in Attachment 1.

[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 recalled that the Committee had approved $87 million in 2013-14 capital projects at its November 2013 meeting. These projects had already been reviewed by the State Department of Finance and approved by the State Joint Legislative Budget Committee. The Committee on Grounds and Buildings had also approved approximately $202 million in 2014-15 projects. This item would amend the 2014-15 budget to include the UC Berkeley Tolman Hall project so that it can be submitted to the State for its review and approval.

Committee Chair Makarechian asked what would happen should the State not approve the amendment. Mr. Lenz responded that should the State not approve the amended budget, the project would have to be brought back to the Committee.

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

4. **APPROVAL OF PRELIMINARY PLANS FUNDING, BIOLOGICAL AND PHYSICAL SCIENCES BUILDING, SAN DIEGO CAMPUS**

The President of the University recommended that the 2013-14 Budget for Capital Improvements be amended to include the following project:

San Diego: **Biological and Physical Sciences Building** – preliminary plans – $4.5 million to be funded from campus funds.

[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 explained that the proposed 122,000 gross square foot UC San Diego Biological and Physical Sciences Building would provide the Divisions of
Biological Sciences and Chemistry/Biochemistry 73,000 assignable square feet of space for teaching, laboratories, research, scholarly activity, academic and administrative offices, and conferences. The project was needed to address existing and future space needs associated with growth in these disciplines. The project’s total cost would be approximately $112 million, to be funded from campus funds and external financing. This project would be submitted to the State as part of UC’s 2015-16 requests. This item requested approval of $4.5 million for preliminary plans to be funded from the campus’ portion of earnings on Short Term Investment Pool (STIP) funds.

Committee Chair Makarechian asked whether this was the first time a campus’ STIP funds had been specified as the source of part of the debt repayment. Mr. Lenz said his understanding was that STIP funds have been used previously as a portion of campus funds. Committee Chair Makarechian asked for clarification that these STIP funds would be the UCSD campus’ portion of earnings on the STIP portfolio rather than the STIP principal. Mr. Lenz confirmed this understanding.

Regent Zettel expressed support for the project, noting that since 2003 the campus had seen a 64 percent increase in the number of biology majors and 57 percent in chemistry/biochemistry. The area near the UC San Diego campus is home to some of the world’s premier research centers for these fields and UC should encourage students who want to study the sciences.

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

5. APPROVAL OF THE BUDGET AND APPROVAL OF STANDBY FINANCING AND INTERIM FINANCING, ENGINEERING VI – PHASE 2, LOS ANGELES CAMPUS

The President of the University recommended that:

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

Los Angeles: Engineering VI – Phase 2 – preliminary plans, working drawings, and construction – $72.7 million to be funded from gift funds.

B. The scope of the Engineering VI – Phase 2 project (the “Project”) shall be for construction of a 94,000 gross square foot facility to accommodate multidisciplinary information science and computation research programs of the Henry Samuerli School of Engineering and Applied Science, including research laboratories and offices, an incubation laboratory for the translation of research to commercial use, and a technology-enabled learning center equipped to serve both traditional and online engineering students.
C. The President be authorized to obtain standby financing not to exceed $15,211,000 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 pledge balance is outstanding, the 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 interim financing not to exceed $44,017,000 for the Project. The President of the University shall require that:

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

(2) To the extent additional gifts are received as documented legally binding pledges, the interim financing will be converted to standby financing.

(3) 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.

(4) 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 recalled that this project had come before the Committee the prior September. The project was for construction of UCLA’s Engineering VI – Phase 2 facility, a 94,000 gross square foot research laboratory facility to accommodate multidisciplinary information science and computer research programs. The building would provide research laboratories and offices for approximately 35 faculty, an incubation laboratory for the translation of research to commercial use, and a 250-seat technology-enabled Learning Center equipped to serve both traditional and online students. The Regents were being asked to approve a budget of $72.7 million to be funded entirely by gifts, standby financing of $15.2 million, and interim financing of $44 million.
Regent Ruiz expressed his support for the project and asked what percentage of engineering graduates were able to secure employment. Dean of the Henry Samueli School of Engineering and Applied Science (HSSEAS) Vijay Dhir cited the large demand for HSSEAS graduates, for example from Silicon Valley firms in need of more computer scientists and electrical engineers. HSSEAS graduated about 700 bachelors of science annually and the majority of those who were not going on to graduate school were hired by industry. The prior year, there were 20,000 applicants for 650 openings in the HSSEAS.

Regent Zettel asked whether the incubation laboratory in the proposed Engineering VI – Phase 2 would help create more engineering jobs by generating new startup businesses. Mr. Dhir responded that UCLA had created an Institute for Technology Advancement approximately six years prior to incubate new technologies stemming from the work of faculty and students. To date, 18 companies have been created. The Institute was currently located off campus and would be moved on campus to the new facility to encourage increased engagement with faculty and students in research, development, and commercialization.

Committee Chair Makarechian asked about the status of the gift funds for this project and whether the external financing would become permanent if the gift funds proved insufficient. Vice Chancellor and Chief Financial Officer Steve Olsen reported that the campus had $14.3 million cash in hand donations, $15.2 million in binding pledges, and $5 million in verbal pledges, leaving $50 million yet to be raised. The item requested standby financing to cover the pledges and interim financing that would provide cash flow to the project while the campus raised the balance of donations. The project was among those UCLA projects that were advanced in their planning and would be high priorities of the campus’ upcoming campaign. Mr. Olsen expressed a high degree of confidence that the campus would raise the required funds and that it would be unnecessary for the campus to return to the Committee to request permanent external financing for the project. Committee Chair Makarechian recalled another project that was recently brought back to the Committee to convert interim financing to permanent external financing because insufficient gift funds had been raised, adding to the University’s debt. Chancellor Block added his confirmation that UCLA was preparing to launch a large fundraising campaign, with the needs of the engineering program playing a prominent part. He expressed confidence that the campaign would raise the funds necessary for this building, but acknowledged that there is always some level of risk. Past UCLA fundraising campaigns have been very successful. Committee Chair Makarechian asked that the Committee be kept apprised of the progress of the fundraising for this project. Mr. Olsen responded that the campus would be happy to report to the Committee on the status of fundraising, adding that the project would be brought back to the Committee for approval of the project design and California Environmental Quality Act compliance.

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 2:00 p.m.

Attest:

Secretary and Chief of Staff
2014-15 BUDGET FOR STATE CAPITAL IMPROVEMENTS ($000s)

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TOTAL STATE PROGRAM

$ 202,812 $ 3,384 $ 78,381

$ 277,812 $ 33,813 $ 78,381