

The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS

March 24, 2016

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

Members present: Regents Davis, Elliott, Makarechian, Oved, Pérez, Sherman, and Zettel; Ex officio members Lozano and Napolitano; Advisory members Hare and Schroeder; Staff Advisors Acker and Richmond

In attendance: Regents Blum, De La Peña, Gorman, Gould, Island, Kieffer, Lansing, Ortiz Oakley, Pattiz, and Reiss, Regents-designate Brody and Ramirez, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice President Henderson, Vice Presidents Budil and Duckett, Chancellors Blumenthal, Hawgood, Khosla, and Yang, and Recording Secretary McCarthy

The meeting convened at 9:20 a.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 21, 2016 were approved.

Committee Chair Makarechian observed that, as part of President Napolitano’s Student Housing Initiative with the goal of adding 14,000 new student beds on UC campuses, Executive Vice President and Chief Financial Officer Brostrom had been conducting a survey of campus housing and needs. Committee Chair Makarechian was pleased to welcome Mr. Charles Munger who would make a special announcement. Chancellor Yang thanked President Napolitano and Mr. Brostrom for their leadership in working with UCSB to meet its goals for student housing. The Chancellor introduced Mr. Munger, who had provided UCSB a \$66 million gift in 2014 to build and furnish UCSB’s Visiting Scholar’s Residence for its Kavli Institute for Theoretical Physics. Mr. Munger would also like to improve the quality of student life by creating a low-cost living and learning student housing environment that would integrate academic excellence and personal well-being. Mr. Munger would share his idea of how to address President Napolitano’s Student Housing Initiative. Chancellor Yang stated this would address one of UCSB’s most significant challenges, changing the culture and improving the living and learning environment of its adjacent community, particularly in Isla Vista, and attracting UCSB students to live on campus. He welcomed Mr. Munger, a visionary philanthropist, international businessman, and Vice Chairman of Berkshire Hathaway, Inc.

Mr. Munger stated that Chancellor Yang had invited him to consider a development on a 28-acre parcel of ocean-front land at UCSB that currently holds a low-rise facility housing 2,000 students and a dining commons, and another five-acre-site of an old maintenance yard. Mr. Munger stated that he had developed four campus housing projects that were very successful, two at the University of Michigan, the Visiting Scholar's Residence for the Kavli Institute for Theoretical Physics, and another at Stanford University.

Mr. Munger cited the need for improved student housing. He proposed construction of two high-rise buildings on UCSB's 28-acre site. Concentrating a large number of undergraduate students in this area would create mutual propinquities that would benefit the students' education. Undergraduates typically move to off-campus housing after one or two years because they want to live with housemates of their choice in a more adult setting and to save on food costs. Mr. Munger expressed his belief that keeping students on campus would be preferable and could be accomplished by creating sub-units for one to eight students. The project would also contain a dining commons. The two buildings would each house 7,500 students. Mr. Munger predicted this would be the best undergraduate housing in the world and could be copied elsewhere in the UC system.

Mr. Munger stated that another goal for this project was that 60 per cent of its undergraduate residents' occupancy costs would be well below that of students in the existing UCSB dormitories. He would not be satisfied if this ambitious goal of having the best housing at a lower cost were not achieved. Construction would be of proven methods that provided low-cost efficiencies. He predicted that the cost per square foot and cost per student would be lower than customary for UC housing and the construction quality would be higher.

The buildings would be so large that it would be impossible to have windows in every bedroom. His prior project had windowless bedrooms. He would solve the window problem by having artificial windows with LED lighting that would mimic natural daylight. Mr. Munger would pay for the architecture and planning, which would later be submitted to the Committee for approval.

Chairman Lozano thanked Mr. Munger for his commitment to the University and his innovative ideas. Committee Chair Makarechian also expressed his appreciation to Mr. Munger for his initial commitment of \$200 million. Mr. Munger added that the total cost of the project would not be less than \$1.4 billion. His \$200 million gift would be seed money for both projects on the two sites mentioned earlier. He envisioned a 300-unit project on the five-acre site. Although the projects would be expensive for the University to build, they would generate income worth twice the cost.

President Napolitano thanked Mr. Munger for his vision, which was aptly timed with UC's admitting more California undergraduates and its Student Housing Initiative. Committee Chair Makarechian expressed his commitment to move this project along as quickly as possible.

Mr. Munger stated that the buildings would be improved if they could be a few stories taller, which would have to be approved by the California Coastal Commission.

The Committee recessed at 9:55 a.m.

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The Committee reconvened at 10:00 a.m.

Members present: Regents Davis, Elliott, Makarechian, Oved, Pérez, Sherman, and Zettel; Ex officio members Lozano and Napolitano; Advisory members Hare and Schroeder; Staff Advisors Acker and Richmond

In attendance: Regents Blum, De La Peña, Gorman, Gould, Island, Kieffer, Lansing, Ortiz Oakley, Pattiz, and Reiss, Regents-designate Brody and Ramirez, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice President Henderson, Chancellors Block and Hawgood, and Recording Secretary McCarthy

2. APPROVAL OF PRELIMINARY PLANS FUNDING, MISSION BAY NEUROSCIENCES RESEARCH BUILDING (BLOCK 23A), SAN FRANCISCO CAMPUS

The President of the University recommended that the 2015-16 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Francisco: UCSF Mission Bay Neurosciences Research Building (Block 23A) – Preliminary Plans – \$21 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.]

Executive Vice President and Chief Financial Officer Brostrom commented that there would be two upcoming bond issues. A General Revenue Bond issue would price the week of April 4, with \$750 million for long-term financing of projects the University had already built and \$100 million of refunding for savings. The projects include classroom facilities at UC Davis and UC Merced, land acquisition at UCSF, a clinical and translational research building at UC San Diego, and energy efficiency projects at UC Irvine and UC Santa Barbara. He reported that, as of the prior day, UC’s ratings on the General Revenue Bond were affirmed by the three ratings agencies at Aa2, AA, and AA. Later this fiscal year, the University would issue a medical center bond for approximately \$450 million in new funding and \$700 million in refunding.

Associate Vice President Sandra Kim introduced the item for approval of preliminary plans funding for UCSF’s Neurosciences Research Building, Block 23A at Mission Bay.

The project had been presented as a discussion item to the Committee in January and was also discussed at the newly reconfigured Committee on Health Services' February meeting.

Chancellor Hawgood stated that this project represented a significant further investment by UCSF in its expanding neuroscience research programs at Mission Bay. This building would provide a primary home for a new Neuroscience Institute with bench laboratory research programs in psychiatry and the neurosciences, as well as desktop research, clinical research, and other support space. This project would not be possible without the generous support of UCSF's donor community. UCSF's vision for neurosciences at Mission Bay encompasses the full spectrum of research, including basic, clinical, and translational research. The proposed building would allow UCSF to pursue research in the rapidly advancing fields of the biological and genetic underpinnings of psychiatric disorders, translating that research to advance the understanding and treatment of development and mood disorders, schizophrenia, depression, and other psychiatric and behavioral diseases.

UCSF's translational and neuroscience basic research programs were growing. New collaborative research projects among existing principal investigators in psychiatry, the UCSF Memory and Aging Center, and the new Kavli Institute for Fundamental Neuroscience, among others, were creating demand for further wet research space located together with dry research space. These programs are attracting significant philanthropic support, including \$177 million for the Memory and Aging Center, as well as \$20 million for the Kavli Institute in 2015 alone. Since July 2014, UCSF has raised over half a billion dollars in pledges, gifts, private grants, and bequests for its neuroscience programs. These programs were outgrowing their present space at Mission Bay. The new direction of collaborative research requires a tighter integration of wet and dry research spaces, a design not available in current facilities. By providing a collaborative space for neuroscience research along with genomics and informatics, and significantly increasing the bench lab psychiatric research footprint, the proposed new research building on Block 23A would complement the existing Mission Bay research facilities, forming a cohesive cluster of neuroscience facilities ringing the Koret Quad at Mission Bay and it would also be close to the proposed clinical psychiatry building at 2130 Third Street. The majority of occupants of the new 23A building would be new recruits to UCSF. A total building population of about 700 people was anticipated, including other faculty involved in desktop research and patient care, as well as research and administrative staff.

The activities in the building would generate new revenue, including new research overhead revenue, or indirect cost recovery, new clinical revenue from 50,000 annual patient visits, and new philanthropy. Chancellor Hawgood anticipated net new research overhead revenue from the building of \$10 million to \$14 million per year that would increase over time. Existing faculty moving into the new building would vacate space elsewhere that could be re-occupied by existing and new faculty who would also generate additional revenues.

The campus was requesting \$21 million for preliminary plans funding that would enable UCSF to refine and confirm the project scope, complete the programming and initial design, and develop a budget for the project based on that refined scope. The proposed project combines bench and wet laboratory space with desktop or dry research space, in some cases on the same floors, and includes a vivarium as well as clinical space on the ground floor. This complex building program would involve expensive construction requiring a high degree of structural, mechanical, and electrical design work to be coordinated with the specialists and end-users during the planning phase to ensure that the final space would meet exacting specifications. By completing a thorough and comprehensive design and plan for construction at the beginning of the project, the campus could avoid costly change orders and revisions during the construction stage. UCSF has learned how to design and build complex buildings, as evidenced by its track record of delivering buildings on time and on budget. Chancellor Hawgood acknowledged that the \$21 million requested for preliminary plans funding was significant; however as a portion of the total estimated budget, the requested funding was consistent with preliminary plan funding for other UCSF proposed building projects such as the recently approved Mission Bay Precision Cancer Medicine Building.

Chancellor Hawgood was pleased to announce that UCSF had already raised pledges totaling \$150 million for construction of the building. Additional gifts would be secured to fund the programs and recruitment. To date, an additional \$60 million for program support, recruitment, and retention had been pledged. New indirect cost recovery funds, infrastructure and operating funds, and clinical revenue would be generated and applied towards operating and debt service costs. UCSF accounted for this project in its ten-year capital financial plan and fully expects that it can fund this building and its operations within UCSF's current and projected financial resources. Chancellor Hawgood expressed confidence that the proposed investment was sound and prudent, and the building would generate more than enough revenue to cover its building costs and operation.

Committee Chair Makarechian commented that UC's bond rating used to be Aa1, which was subsequently downgraded to Aa2 with a negative outlook because of the lack of State funding. He asked if the rating agencies currently gave UC a stable outlook. Mr. Brostrom reported that the agencies gave UC a stable outlook and had a positive view of the trajectory of the University, but still raised areas of concern such as UC's unfunded liabilities. Committee Chair Makarechian recalled the agencies' earlier concern about UC's six consecutive years of deficit funding. He asked if those projections had changed. Mr. Brostrom responded that the University still projected a negative operating position, primarily because of unfunded liability that it currently had to expense. On a cash basis, the University's operations were positive, but when retiree health and pension are expensed, the operating position becomes negative across the system. In response to a question from Committee Chair Makarechian, Mr. Brostrom confirmed that, with the additional bond issues of \$750 million and \$100 million, the University's rating would still be Aa2.

Committee Chair Makarechian commented that, since this project would be developed with the construction-manager-at-risk delivery model, spending money up front on design

would be beneficial, to avoid later cost increases. He praised the UCSF construction management team for delivering complex projects on time and under budget.

Regent Blum asked about the projected sources of revenue for the proposed building. Chancellor Hawgood responded that the campus already had pledges of \$150 million toward the capital cost of the building, for which it intended to raise at least another \$25 million, and use debt financing for the remainder. UCSF would generate significant additional new revenue in the building, estimated at \$10 million to \$14 million annually in its early years, to support the estimated annual operating costs of \$4.1 million without debt service and \$12.5 million in the first years of operations with debt service. Approximately \$20.4 million of gross clinical revenue would be generated annually. The campus estimates raising approximately \$2 million to \$4 million per year for additional infrastructure and operation costs from philanthropy for program development. In the past 22 months alone, the campus had received pledges for in excess of half a billion dollars to support its neuroscience programs, an area of enormous growth.

Regent Blum asked for more specific information about sources of the \$10 million to \$14 million in new revenue that would be generated. Chancellor Hawgood responded that those funds would be indirect cost recovery from the building's 32 new principal investigators, with the lower estimate of \$10 million based on the average indirect cost recovery per square foot generated by the School of Medicine. Neurosciences are particularly productive and the upper estimate of \$14 million was based upon current indirect cost recovery per square foot by UCSF's neuroscience investigators. With operating expenses including debt service estimated at \$12.5 million, UCSF anticipates that net new income to the University would exceed the estimated operating costs.

Given UCSF's success in past construction projects, Regent Sherman asked what knowledge the campus had gained that would be brought to this project. Campus Architect Michael Bade commented that UCSF uses a very strict and difficult pre-qualification process to select the best general contractor and subcontractor vendors. These companies work almost exclusively in the private sector and are highly selective about the public sector work they do. UCSF uses advanced lean construction techniques drawn from proven manufacturing management methods. Every project managed this way had been delivered on or under budget with no change orders or litigation, and high-quality results. The campus constantly refines its methods, such as improving its construction contracts. The campus applies its "plan, do, check, adjust" methodology to its operations, and is applying these methods internally as well as in relations with its vendors. Mr. Bade said the campus has developed a stable, cost-effective approach to design and construction. Design and construction are merged, with the designers and builders working together in a big room built at the site so that the best building ideas go into the design. He anticipated that the campus would be successful in development of this project.

Regent Zettel congratulated the campus on its commitment to greatly needed research in this important area.

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

3. **DISCUSSION OF ANDERSON SCHOOL OF MANAGEMENT ADDITION, LOS ANGELES 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.]

Committee Chair Makarechian briefly introduced the item. Chancellor Block stated that the proposed building at UCLA's Anderson School of Management (School) was made possible by a \$100 million gift from Marion Anderson the prior year. A portion of that gift would be used to support this project.

Anderson School of Management Dean Judy Olian provided an overview of the project, which would be named the Marion Anderson Building, and expressed gratitude to Mrs. Anderson for her gift. The School has had a large growth in its program and in the expectations of what world-class management programs should offer. The School's original complex of six buildings was constructed and occupied in 1995, since which time its number of students, faculty, degree programs, centers, and career centers had increased dramatically.

Ms. Olian stated that the new building would be designed around the School's strategic plan through 2016, which is aimed at improving the student experience. The new building would consolidate all phases of students' relationship with the School, including admissions, student services, career services, alumni services, and development, to encourage alumni to stay involved for life. The project would reflect modern learning models in M.B.A. programs, with more collaborative projects, producing content that can be sent around the world, facilities for various centers' research and programs, and expanded student lounges. The building's learning facilities would be flexible and allow for more variety in class sizes.

Ms. Olian anticipated that the building would be completely gift-funded by the School's alumni, in the context of the School's new financial model, which is to be fully self-supporting of its master's degree programs. Of Marion Anderson's \$100 million gift, \$40 million would be seed money for this building, which is expected to cost \$80 million to \$85 million.

Ms. Olian displayed an aerial view showing the proposed building's location. The top level of existing Parking Structure 5 would serve as the vehicular drop-off point with pedestrian access on the first floor. A few parking spaces would be lost and the parking structure would be fortified. The building's lower level would connect seamlessly to existing facilities. The new building would expand the School's current 305,000 gross square feet by 20 percent.

Ms. Olian summarized that this addition would enable the School to remain at the forefront of business schools worldwide.

Regent Gould congratulated Ms. Olian and UCLA on the School's success as a self-supporting program. Ms. Olian expressed appreciation to the Anderson family.

Committee Chair Makarechian asked if the campus planned to use the current foundation of the Parking Structure 5. Vice Chancellor Steven Olsen agreed that was a key design question. He said there was a high likelihood that the parking structure would require additional seismic strengthening. The parking structure had been strengthened, but there would be additional load. Committee Chair Makarechian asked about the effect on campus parking, since one parking structure had been eliminated to build the Luskin Conference Center. Mr. Olsen confirmed that some parking spaces on Parking Structure 5's top level would be lost and the campus would attempt to minimize construction disruption on the lower parking levels.

Committee Chair Makarechian commented that an \$85 million 63,000-gross square-foot building would cost more than \$1,000 per square foot for construction of what was essentially an office building on free land. He expressed his view that, even though this building would be constructed with gift funds, that cost was extremely high and would be used by future UC projects to justify ever-increasing construction costs. He urged the campus to negotiate the projects' costs aggressively, as the proposed costs were out of hand compared with the private sector. Mr. Olsen assured the Committee that the campus would construct the building as economically as possible and that these figures were preliminary.

Regent Sherman asked if this project would enable the School to increase its number of students. Ms. Olian responded that the School had already increased its population and that this project would be catching up to that prior growth. The School's existing facilities were not keeping up with expectations for a world-class business school.

Committee Chair Makarechian asked the campus to provide information at a future meeting about parking spaces that would be lost as a result of the project, and about what he characterized as the very high cost per square foot.

4. DISCUSSION OF NUEVA WEST GRADUATE STUDENT HOUSING, 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.]

Associate Vice President Sandra Kim introduced this discussion of the Nueva West Graduate Student Housing project that would provide a minimum of 800 beds for UCSD graduate and professional students in the West Mesa Housing neighborhood. The project would include the redevelopment of a low-density six-building complex that currently had about 50 apartment units and some parking, and the construction of a new parking

structure. For several years, the demand for graduate and professional student housing had outpaced availability. This project was part of a larger coordinated effort to improve housing options for all students. In September, the Regents approved 1,355 bed units of graduate student housing in this neighborhood and the proposed project would add to that supply. The proposed parking structure would serve residents of multiple campus housing developments and the UC San Diego Health System. The project would be brought back to the Committee at a future meeting for approval of preliminary plans funding, with additional approvals for budget and design to follow at subsequent meetings.

Chancellor Khosla stated that during the past several years, with the growth in its student population and low growth in housing, UCSD had become more of a commuter university and less residential. If the campus adds more on-campus housing, the experience of its students would improve, alumni ties to the campus would become stronger, and fundraising would improve. Since the market rate for housing near La Jolla is high and increasing significantly, the campus would be able to offer below-cost housing, enabling it to recruit Ph.D. students for whom high housing costs would otherwise be an obstacle. Chancellor Khosla expressed his enthusiasm for the project.

Vice Chancellor Pierre Ouillet added that UCSD graduate students support this project that would enable the campus to come closer to meeting the demand for on-campus housing and to meeting the campus' goal to house half of its students on campus. Development of this project should allow the campus to offer graduate students a two-year on-campus housing guarantee. Mr. Ouillet explained that there were currently more than 2,000 graduate students waitlisted for housing and that number was increasing. It was anticipated that completion of the previously approved Mesa Nueva Project in 2018 would reduce the number of graduate students on the housing waitlist to about 800. At the time of completion of the proposed project, the number of graduate students on the waitlist is anticipated to be more than 1,200. He expressed his view that these figures were below actual demand, since many students who want housing do not put their names on the waitlist. UCSD would need to add more than 2,000 beds for graduate students to be able to offer a two-year on-campus housing guarantee.

Mr. Ouillet stated that UCSD plans to add 5,000 student beds by 2020. The Regents had approved Mesa Nueva, which would add 1,355 beds for graduate students; the currently proposed project would add 800 more; a future proposal would involve 2,000 additional beds for undergraduates. In the longer term, the campus plans to add another 5,000 beds, which would enable it to offer the most on-campus housing of any UC campus.

Mr. Ouillet displayed an aerial view showing the proposed project's location. The Mesa Neighborhood, with graduate student housing, would be close to the light rail system that would come through the campus by 2020-21, connecting to downtown San Diego, with two stations on campus and five stations around the graduate housing. Most graduate student housing would be within five minutes of a transit station.

UCSD would use a design-build project delivery method, which Mr. Ouillet said allows the campus to achieve predictable outcomes at excellent cost. Its earlier housing projects

had been built for about \$300 per gross square foot (gsf). The Mesa Nueva project was built for \$315 per gsf and Mr. Ouillet hoped that the Nueva West project would be built in a similar cost range.

The project would include development of both housing and a parking structure. Mr. Ouillet assured the Regents that the graduate student assembly at UCSD was very supportive of the project. The parking structure would serve both the graduate student housing and the faculty and staff of the new Jacobs Medical Center. UCSD has lowered its parking to student ratio to 0.6, reflecting the fact that this housing would be much more connected to the city through the light rail system.

This area of UCSD student housing would be organized as a collection of villages. Further development of student housing in these neighborhood villages would result in a total of between 8,000 and 10,000 students living on this side of the campus.

Committee Chair Makarechian commented that reducing students' housing costs would help lower student debt, especially at UC campuses located in areas with high market-rate rentals. Several UC campuses are located in some of the most expensive real estate markets in the nation. Projects such as this one, which would turn a 50-unit site into an 800-unit site, are very important for UC students. He asked what the savings would be for UCSD students in on-campus housing compared with off-campus housing. Mr. Ouillet stated that on-campus housing is 20 to 40 percent less expensive for students, and 50 percent less expensive when ancillary costs such as transportation and deposits are included. Committee Chair Makarechian emphasized that these projects produce income for the campus and save money for students.

Committee Chair Makarechian asked why it would be necessary to build a 1,200-space parking structure in connection with this project when it would be near the light rail system and the campus' goal was to reduce the number of driving trips to campus. Mr. Ouillet responded that the Jacobs Medical Center would open across the street from this project and would have a significant need for patient parking.

Mr. Brostrom commented that, during a recent trip to UCSD to survey student housing needs, he and Ms. Kim met with several UCSD students who expressed strong support for development of additional on-campus housing. Off-campus housing near UCSD is very expensive, causing students to live far from campus to find affordable housing. Long commute time added hours to students' days and had a negative effect on student outcomes.

Regent Zettel congratulated UCSD on this project. She asked if the campus was engaging on a regular basis with the La Jolla Planning Group. Campus Architect Joel King confirmed that the campus had reached out to that group, which had expressed concern about the effect on the local community. The campus had addressed community concerns and was moving forward with a fire station initiative. Regent Zettel expressed her desire to help move those discussions along to increase community support.

The meeting adjourned at 10:50 a.m.

Attest:

Secretary and Chief of Staff