

The Regents of the University of California

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

July 19, 2000

The Committee on Grounds and Buildings and the Committee on Finance met jointly on the above date at UCSF-Laurel Heights, San Francisco.

Members present: Representing the Committee on Grounds and Buildings: Regents Atkinson, Connerly, Davies, Fong, Hopkinson, O. Johnson, S. Johnson, Khachigian, Kohn, and Kozberg; Advisory members Morrison and Seymour
Representing the Committee on Finance: Regents Atkinson, Bagley, Connerly, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, Miura, and Parsky; Advisory member Morrison

In attendance: Regents Bustamante, Montoya, Moores, Nakashima, and Sayles, Faculty Representatives Coleman and Cowan, Associate Secretary Shaw, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Drake, and Hershman, Chancellors Berdahl, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, Vice Chancellor Bainton representing Chancellor Bishop, and Recording Secretary Bryan

The meeting convened at 12:45 p.m. with Committee on Grounds and Buildings Chair Kozberg presiding.

1. APPROVAL OF THE MINUTES OF THE MEETING OF MAY 17, 2000

Upon motion duly made and seconded, the minutes of the meeting of May 17, 2000 were approved.

2. AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, CROUL HALL, IRVINE CAMPUS

The President recommended that the Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the 2000-2001 Budget for Capital Improvements and the 2000-2003 Capital Improvement Program be amended to include the following project:

Irvine: Croul Hall – preliminary plans, working drawings, and construction – \$23,756,000 total project cost to be funded from campus funds (\$2,156,000), funds available to the President (\$2,000,000), and gift funds (\$19,600,000).

The Committee was informed that John V. Croul Hall will provide research laboratory, office, and conference space to accommodate the School of Physical Sciences' Department of Earth System Science. The Department of Earth System Science at UCI began as an academic program in the early 1990s and was fully established as a department in 1995. The department contributes to a fundamental understanding of the earth system, focusing on changes to the regional and global environment and the mechanisms and processes effecting these changes.

The space occupied by the Department has been carved out of areas in two separate buildings – Rowland Hall and the Physical Sciences Research Facility – that were originally planned for other physical sciences departments. This situation has resulted in overcrowding of all physical science departments and fragmented programs. Some of the specific problems already encountered by the department include the following:

- A shortage of research space, resulting in overcrowded laboratories with inadequate bench space for experiments and inadequate floor space for equipment. Overall, existing research and support space provides an average of only 750 asf per faculty, as opposed to the approximately 1,000 to 2,000 asf per faculty that the department requires, based on programmatic assessments.
- Lack of office space, forcing some graduate students and postdoctoral researchers to share small offices. In some cases, researchers have no dedicated office space.
- No dedicated space for seminars and colloquia, forcing the department to use general assignment classrooms or rented space for these and other formally scheduled events which, in turn, limits the number and types of events that can be offered.
- Restrictions on faculty recruitment due to lack of space. The department must wait until new space is available before recruiting additional researchers.

Part of the Department is currently housed in the Physical Science Research Facility, which is assigned to the Departments of Earth System Science and Physics. The Physical Sciences Research Facility was constructed in 1981 as a low-density, inexpensive concrete tilt-up and wood frame building that was designed to be temporary. The building has a number of deficiencies that have prompted the campus' decision to demolish it, including a "poor" seismic rating, continuing and significant

maintenance problems, and its location on a prime campus site that is designated for higher-density use, such as Croul Hall.

In addition, the Department of Earth System Science is projected to grow substantially over the next five years. The department offers an undergraduate minor but will be offering a new undergraduate major beginning in fall 2000. By 2005-06, undergraduate workload is expected to increase from 47 FTE to 151 FTE, and graduate student enrollment is expected to increase from 19 FTE to 50 FTE. To meet these demands, the department is expecting to add six new faculty.

The campus proposes to address these deficiencies and future needs with the development of Croul Hall. Croul Hall will be constructed on the site currently occupied by the Physical Sciences Research Facility, which is scheduled for demolition as part of this project.

Project Description

Construction of Croul Hall will provide the Department with a total of approximately 24,900 asf net new space and 7,000 asf replacement space from the demolition of the Physical Sciences Research Facility. Upon the completion of Croul Hall, the Department will be assigned 38,400 asf, represented in Croul Hall's 31,900 asf and Rowland Hall's 6,500 asf, which the Department is currently using. The project will accommodate research laboratories, laboratory support space, research offices, a conference center, and academic and administrative offices.

The site for Croul Hall conforms with the campus Long Range Development Plan. The building will be in the Physical Sciences quadrant, adjacent to the campus Ring Mall on the current site of the Physical Sciences Research Facility.

Project Cost and Funding

The campus is in the process of raising money to cover the gift portion of the funding. As of June 1, 2000, the gift campaign status was \$2,260,000 in gifts received and \$4,050,000 in gifts pledged. Should all of the gift funds not be in hand at the time of bid, the campus will provide the funds necessary to comply with Regental policy regarding bid award so that the project can proceed.

Environmental Classification

In accordance with University procedures for the implementation of the California Environmental Quality Act of 1970, an Initial Study will be prepared to determine potential environmental impacts of the project. The appropriate environmental document will be presented to The Regents at the time of project design consideration.

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

3. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND EXTERNAL FINANCING FOR UNDERGRADUATE STUDENT HOUSING EXPANSION 2, RIVERSIDE CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to the concurrence of the Committee on Finance, the 2000-2001 Budget for Capital Improvement and the 2000-2003 Capital Improvement Programs be amended to include the following project:

Riverside: Undergraduate Student Housing Expansion 2 – preliminary plans, working drawings, construction, and equipment – \$42,798,000 to be funded from external financing (\$40,820,000) and University of California Housing System (UCHS) Net Revenue Funds (\$1,978,000).

- B. The Committee on Finance recommend that:
- (1) The Treasurer be authorized to obtain financing not to exceed \$40,820,000 to finance a portion of the construction and related costs of the Undergraduate Student Housing Expansion 2 project, subject to the following conditions:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period;
 - b. As long as the housing portion of the debt (\$40,820,000) is outstanding, University of California Housing System fees for the Riverside campus shall be established at levels sufficient to meet all requirements of the University of California Housing System Revenue Bond Indenture and to provide excess net revenues sufficient to pay the debt service and to meet the related requirements on this proposed financing;
 - c. The general credit of The Regents shall not be pledged.
 - (2) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.

- C. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

It was recalled that residence hall housing at Riverside is provided in two existing complexes providing 1,788 beds. In 1999, The Regents approved the Pentland Hills project, which has 466 beds slated for occupancy in fall 2000. The project will be the second phase of undergraduate student housing expansion in what will be known collectively as the Pentland Hills Residence Hall. The residence halls are occupied by freshmen and a small percentage of returning students. Other University housing is provided by two student apartment complexes which house 500-550 undergraduate and graduate students. Family housing consists of 268 single and duplex units.

Demand Analysis

The Riverside campus' Long Range Development Plan provides that the campus house 70 percent of freshman and transfer students and 35 percent of all students in University housing. Currently, the Riverside campus houses only 24 percent of students in University housing. Since the last residence hall addition in 1990, general campus enrollment has increased by 33 percent. The approved campus projections indicate that undergraduate enrollment will grow by 2,465 students, including an increase of over 533 freshmen between fall 1999 and fall 2002. This rapid growth is expected to continue into the foreseeable future, as UC Riverside's approved undergraduate enrollment is expected to increase 85 percent from 10,120 in fall 1999 to 18,720 by fall 2010.

Surrounding community vacancy rates are approximately 2 percent and dropping. Consistent with this drop, off-campus rents are increasing. Given enrollment growth trends and the scarcity of both on and off-campus housing, additional on-campus housing should be developed as soon as possible.

Project Scope

This project includes a 654-bed residence hall complex with residential suites, a resident hall commons, and a complex commons. A separate housing office will manage resident hall operations. The project will be located on undeveloped land in the northeast quadrant of the campus, northwest of the Undergraduate Student Housing Expansion project. The residence hall beds are distributed in eight separate buildings connected by circular stairwells. A typical suite consists of double bedrooms with a living room, kitchen, and bathroom.

A new two-lane asphalt roadway will be completed from Linden Street to run north of the proposed project along the east perimeter of the new project site, ending in a circle and drop-off point in front of the new housing administration building. Existing surface lot parking will be expanded and improved as a separate but concurrent project.

In accordance with the California Environmental Quality Act, and the University of California procedures for the implementation of CEQA, an Initial Study will be prepared to analyze the potential environmental effects of the Undergraduate Student Housing Expansion 2 project. The environmental document will be presented to The Regents for review at the time of project design consideration.

Financial Feasibility

The total project cost is to be funded from a combination of external financing and campus funds. Assuming a debt of \$40,820,000 amortized over 27 years at 6.5 percent interest, average annual debt service is estimated at \$3,246,000, and operating expenses are estimated at \$2,589,000, for a total annual expense of \$5,835,000. Repayment of the debt will be from student rents generated by the proposed facility and by revenues from existing UCR residence hall bed spaces.

The average rate for the proposed Undergraduate Student Housing Expansion 2 will be \$8,583 per year (room and board for nine months) for the first full year of occupancy (2002-2003). After adjusting for rate inflation, utilities, and board costs, the equivalent average annual off-campus rate becomes \$10,196. Project financial feasibility also assumes that rates for the existing residence hall bed spaces will be increased on average by \$533 per year to help support the new facility.

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

4. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND EXTERNAL FINANCING FOR CANCER CENTER FACILITY, SAN DIEGO CAMPUS**

The President recommended that:

- A. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the 2000-2001 Budget for Capital Improvements and the 2000-2003 Capital Improvement Program be amended to include the following project:

San Diego: UCSD Cancer Center Facility – preliminary plans, working drawings, construction, and equipment – \$87,109,000 to be funded from gifts (\$67,879,000) and external financing (\$19,230,000).

- B. The Committee on Finance recommend that:
- (1) The Treasurer be authorized to obtain external financing not to exceed \$19,230,000 to finance the project listed in A. above, subject to the following conditions:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period; and
 - b. Repayment of the debt shall be from the gross revenues of the UC San Diego Medical Center funds.
 - (2) The Treasurer be authorized to obtain standby financing not to exceed \$20,900,000 and interim external financing not to exceed \$22,979,000, for a total of \$43,879,000, prior to awarding a construction contract, for any gift funds not received at that time and subject to the following conditions:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period; and
 - b. Repayment of the debt shall be from gift funds and in the event such gift funds are insufficient, from the UC San Diego campus' share of the University Opportunity Fund.
 - (3) The general credit of The Regents shall not be pledged.
 - (4) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
 - (5) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

It was recalled that the Cancer Center Facility (Facility) will provide state-of-the-art, critically needed space for key cancer research programs and clinical care. The Facility will include clinic space, research laboratories, offices, conference rooms, a

vivarium, and shell space. Also included in the project is an underground parking structure to accommodate approximately 130 vehicles, landscaped open spaces, and a portion of the Health Sciences Walk. Construction is expected to begin in fall 2001, with projected occupancy in summer 2003. The Facility will be located on the East Campus in La Jolla, south of the Shiley Eye Center and east of Thornton Hospital.

Two related proposed projects, East Campus Utilities Plant-Phase 1 and Medical Center Drive South Road Realignment, are expected to begin construction in fall 2000, with projected completion by summer 2001.

The UCSD Cancer Center (Center) is an Organized Research Unit comprised of more than 180 members from 19 departments and serving as the organizational hub of a campus-wide program integrating cancer research, teaching, and patient care. The Center is a National Cancer Institute-designated Clinical Cancer Center with multiple areas of expertise in the prevention, diagnosis, and treatment of all forms of cancer, and has a wide range of research programs devoted to understanding the origins of cancer, effects on the body, and prevention and treatment.

Cancer research and clinical programs at the San Diego campus are constrained by existing facilities which are insufficient in size and are scattered in numerous locations on the La Jolla and Hillcrest campuses, making collaboration and the sharing of resources difficult. The Center relies heavily on leased space to conduct research and clinical trials. Outpatient clinical care for cancer patients is currently conducted in many different locations within UCSD Healthcare, making it difficult to offer integrated, convenient patient care.

Project Description

By housing cancer research, clinical trials, and clinical programs under one roof, the Facility will promote an integrated, cohesive environment. The research laboratories will be designed with maximum flexibility to support a broad range of research disciplines. Shell space will be built out as specific research requirements and additional funds are made available. The clinic spaces will be designed to convert to a variety of uses. Appropriate amounts of circulation and lobby space have been included in the Facility in order to accommodate the large volumes of patient and visitor traffic.

Project Costs and Environmental Consideration

In accordance with University of California guidelines for the implementation of the California Environmental Quality Act of 1970, a Tiered Initial Study/Mitigated Negative Declaration will be prepared for consideration by The Regents in conjunction with the project design review and approval at a future meeting.

Financial Feasibility

The total project cost is estimated at \$87,109,000, to be funded from a combination of gift funds for the research portion of the facility and external financing for the clinical portion of the building, to be repaid from medical center revenues.

Research Program

The new Facility is planned to meet the following goals: provide a consolidated research and treatment facility to promote collaboration among scientists and clinicians; provide a state-of-the-art research environment that attracts leading scientists; provide laboratory space which will relieve existing deficiencies; stimulate growth in funding for cancer research; consolidate the full spectrum of services from prevention to palliative care to meet the needs of cancer patients and their families; and, enrich the existing cancer research and treatment community.

The San Diego campus is committed to raising \$67,879,000 to fund the research portion of the Facility. As gift funds will be collected over time, approval for interim external financing is requested in order to meet Regental policy to have funds on hand when the bid is awarded. It is anticipated that the campus will have \$24,000,000 of gift funds in hand for the Facility at the time of bid award. Standby financing of \$20,900,000 is requested to support the remainder of pledges to be collected, and interim external financing of \$22,979,000 is requested for the balance of the gifts to be raised. Gift funds will continue to be collected during the construction phase and after completion. As gift funds are received, the campus will prepay the principal amounts outstanding on the interim financing.

Although it is anticipated that the campus will be able to raise gift funds sufficient to pay the principal and interest on the interim financing, in the event such gifts are insufficient, the San Diego campus' share of the University Opportunity Fund has been pledged as an additional source of repayment. Should the campus be unable to raise additional gifts by the termination of the interim financing, the campus may choose to seek Regental approval for long-term financing for the shortfall in the gift campaign. Inclusive of this amount for the interim external financing, the campus meets both the pledge and payment tests for the Opportunity Funds. In FY 2004, the first full year of occupancy, 58 percent of Opportunity Funds are pledged for debt service.

Clinical Program

The diagnosis and treatment of cancer involves physicians and allied health professionals across virtually all the specialties of clinical medicine. The hallmark of a National Cancer Institute-designated Cancer Center is the ability to bring together physicians within these specialties who have developed expertise specific to cancer and to attract a large enough patient base to sustain this specialized capability in both the delivery of service and the conduct of clinical research. Advances in understanding the molecular and genetic basis of cancer are also making it possible to evaluate patients' genetic profiles and customize treatment based on this analysis. UCSD clinicians

currently include specialists in the thirteen aspects of cancer prevention, screening, diagnosis, and treatment. The Center also includes experts in the nutritional aspects of cancer, patient and family education, clinical trials management, and community outreach.

At present, the Cancer Center Clinic within the Perlman Ambulatory Care Center in La Jolla and the Gildred Facility in Hillcrest have space to house only Hematology/Oncology, Head and Neck Oncology, and some physicians in Surgical Oncology. All other cancer specialists are scattered in multiple ambulatory locations in both Hillcrest and La Jolla. Mammography is in facilities separate from the clinics in both Hillcrest and La Jolla, and radiation therapy services are provided in yet another location in the basement of UCSD Medical Center – Hillcrest. The Pain Clinic and other palliative services are in still other locations. Patients often must travel to multiple locations for the various facets of their care. This dispersion of locations makes it difficult to provide the patient-oriented, healing environment and coordinated, comprehensive care so important to cancer patients and their families and limits the opportunities for collaboration among the clinicians providing care. These locations are also distant from the laboratories and offices of faculty conducting translational research and clinical trials, inhibiting the conduct of clinical research that is an essential component of an effective Cancer Center.

The new Facility provides the opportunity to consolidate the full spectrum of services from preventive to palliative care in one location that also houses clinical research and clinical trials and is in close proximity to inpatient facilities at Thornton Hospital. A Cancer Center Clinical Business Planning Group was appointed to develop detailed program and business plans for this new Center with consulting assistance from Hamilton HMC. With FY 1999 as a base year, detailed program plans and volume and financial projections were developed through FY 2009, both for services to be provided within the new Facility and for the associated services provided to cancer patients in the inpatient and ancillary service facilities of UCSD Medical Center.

Despite facility limitations, in fiscal year 1999, more than 6,000 patients with cancer or suspected cancer made more than 23,000 visits to UCSD clinics, received more than 3,300 chemotherapy treatments, had almost 6,400 radiation therapy treatments, and accounted for more than 1,700 discharges from UCSD Medical Center-Hillcrest and the Thornton Hospital. With successful recruitments of key oncologic faculty specialists who are attracted by the prospect of a new cancer center that integrates basic and clinical research with patient care, projections indicate that these volumes could grow to more than 9,500 patients, 34,000 visits, 6,000 chemotherapy treatments, 8,000 radiation therapy treatments, and 2,200 discharges by 2009 with the creation of the Facility.

Projected increases are based on assumptions of new faculty recruitment, continued population growth (as forecast by the San Diego Association of Governments) of

2 percent annual growth, and a one-time 10 percent increase in patient volume attributable to the opening of the proposed Facility.

It is expected that projected increases in patient volumes will contribute incremental margin (measured before debt service related to the project) to the Medical Center. Currently and in the projections, margin from outpatient services is expected to be roughly breakeven, while increases in inpatient services will provide the incremental margin.

Medical Center Debt

Based on long-term debt of \$19,230,000 amortized over 27 years at 6.5 percent interest, the estimated average annual debt service will be \$1,529,305. Repayment of the debt will be from the San Diego Medical Center's gross revenue. The project cost does not include \$6 million in medical equipment that will be financed separately through lease financing.

The combined annual debt service on \$122.2 million is estimated at approximately \$14.8 million (FY 2004) and will be repaid from Medical Center gross revenues. In FY 2005, the year following anticipated opening of the Facility, cash available for debt service is anticipated to total \$58.1 million for a debt coverage ratio of 3.8 times.

In consultation with the Office of Clinical Services Development and the Office of the Treasurer, the UCSD Medical Center has prepared a business plan confirming the financial feasibility of this endeavor.

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

5. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND EXTERNAL FINANCING FOR SAN RAFAEL STUDENT HOUSING ADDITION PROGRAM, SANTA BARBARA CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings recommend that, subject to concurrence of the Committee on Finance, the appropriate Budgets for Capital Improvements and Capital Improvement Programs be amended to reflect the following changes:

From: Santa Barbara: A. San Rafael Student Housing Addition – preliminary plans, working drawings, construction, and equipment \$46,951,000 to be funded from external financing

(\$43,951,000), University of California Housing System Net Revenue Funds (\$3,000,000).

To: Santa Barbara: A. San Rafael Student Housing Addition – preliminary plans, working drawings, construction, and equipment – \$57,860,000 to be funded from external financing (\$54,860,000), University of California Housing System Net Revenue Funds (\$3,000,000).

- B. The Committee on Finance recommend that the financing actions approved by The Regents in January 1998 and amended in September 1998 with respect to the San Rafael Student Housing Addition project, Santa Barbara campus, be amended as shown, with the understanding that all other financing actions by The Regents regarding said project remain unchanged:

Deletions shown by strikeout, additions by shading

- (1) The Treasurer be authorized to obtain financing not to exceed ~~\$43,951,000~~ **\$54,860,000** to finance a portion of the construction and related costs of San Rafael Student Housing Addition, Santa Barbara campus, subject to the following conditions:
- a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period;
 - b. As long as the housing portion of the debt is outstanding, University of California Housing System fees for the Santa Barbara campus shall be established at levels sufficient to meet all requirements of the UC Housing System Revenue Bond Indenture and to provide excess net revenues sufficient to pay the debt service and related requirements on the proposed financing;

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It was recalled that in January 1998 The Regents approved the San Rafael Student Housing Addition, Santa Barbara campus, at a total project cost of \$45 million. At the same meeting, The Regents approved external financing of \$42 million to be paid from University of California Housing System net revenues. The project consists of three major components: a new undergraduate student housing complex of 800 beds; an addition to Carrillo Commons dining facility; and renovations, life-safety, and code corrections to Carrillo Commons. During the structural design phase, seismic rating of the 30-year-old Carrillo Commons renovation component of the project was downgraded to “poor.”

In September 1998, The Regents approved a \$1,951,000 increase of project costs to cover the seismic scope increases, to total \$46,951,000, and approved the schematic design and certified the environmental review. Subsequently, more extensive code corrections were uncovered throughout the building than was originally planned, including lead paint and asbestos abatement, ADA, fire, and life-safety improvements.

Project Description

The San Rafael Student Housing Addition, Santa Barbara campus will construct 156,500 assignable square feet consisting of three interconnected components: (1) the construction of an 800-bed student housing complex and associated student support facilities of approximately 132,500 asf; (2) an addition to the adjacent Carrillo Commons of approximately 7,400 asf (the existing San Rafael Residence Hall and dining complex); and (3) life-safety and building code corrections and renovation of Carrillo Commons of approximately 16,600 asf.

The residence component will consist of suite housing and resident houses. Suite housing will consist of a mix of single and double occupancy bedrooms arranged in clusters with shared bathrooms and will provide a shared study room, lounge, and laundry facilities. Resident houses will be nearly identical to suite housing but will include shared kitchen facilities. The project will accommodate 400 students in each of the two housing types. The facility also includes a resource and technology center, study, meeting, and office space, and a student meeting facility for lectures and social and recreational events.

Carrillo Commons Addition

The project includes the expansion of the existing food service operations at Carrillo Commons to accommodate the increased student population using the dining facilities associated with the new housing. Also to be enlarged are associated kitchen, bakery, food preparation, servery, storage, and loading dock areas.

The project also includes seismic strengthening, installation of fire sprinklers, asbestos and lead abatement, ADA improvements and upgrades to the building's utility system including fire alarm and security system.

Demand for New Student Housing

Freshman enrollments are the primary drivers for demand of on-campus housing at Santa Barbara. Since the mid-1990s, the Santa Barbara campus has experienced increasing freshman enrollments. In fall 1999, approximately 4,200 freshmen applied for housing in combination with 900 applications from returning residence hall students and 500 applications from transfer students. UCSB began the 1999 academic year with 2,670 residence hall spaces and generated an additional 164 spaces by converting double rooms into triples and converting study areas into bed space. In order to meet the total

demand for 5,600 spaces, the campus initiated an aggressive program to engage the private sector landlords to satisfy the remaining 2,766 students. As a result, 2,077 additional students were offered affordable student housing, resulting in a waiting list of 700 students after the fall term began.

The addition of 800 beds will reduce the current campus housing shortfall and reduce temporary spaces and overcrowding. Further plans are under development to address projected campus growth and to relieve the campus from being too dependent on the private sector, where capacity is unstable and rates exceed those offered by campus facilities.

Required Redesign and Mitigation

The project is nearing completion of working drawings. Based on the current cost estimate, an augmentation of \$10,909,000 will be required. Certain factors have contributed towards the estimated budget increase. Following approval of schematic design and the environmental review in fall 1998, the campus submitted the project to the California Coastal Commission for a Notice of Impending Development. The Coastal Commission did not act on the item until June 1999. Though the project had been designed consistent with the Long Range Development Plan and all impacts to identified wetlands or emerging wetlands were mitigated, Commission staff determined that an amendment was required and recommended that no construction occur within 100 feet of Commission-identified wetlands. A total of six special conditions were imposed by the Commission on the project.

The impact of these conditions resulted in the following changes to the project: redesign and/or relocation of 13 of the 21 buildings; redesign of the perimeter circulation road system; redesign of site grading and drainage; enhancement of an additional 0.8 acres of wetland resources including grading, introduction of new soil and wetland species, and installation of irrigation; and installation of new boardwalks, fencing and signage. The estimated cost of these changes to the construction budget of the project total \$2,216,000.

Current Market Conditions for Construction

The time associated with the review and approval by the California Coastal Commission combined with the subsequent redesign has added 24 months to the schedule of the project. Traditional estimating practices used for the previously approved budget could not have anticipated the volatile nature of the current bid market. Normal inflation associated with construction has resulted in an 8 percent increase in the construction budget. In addition, the original project budget assumed 10 percent savings would be realized by the granting of an exception to the use of prevailing wage. Due to the current market conditions in the Santa Barbara area, an independent cost estimator has advised that the 10 percent savings no longer can be assumed, as

contractors are paying all workers at the prevailing wage level. The total amount of the increase associated with changes in market conditions will be \$6,759,000.

Other Increases Contributing to Need for Augmentation

While the percentage of the construction budget for design and management fees actually slightly decreased, due to the overall increase in the construction, design and management fees will add a total \$1,103,000. The remaining \$831,000 increase in project costs will be attributed to the increase in capitalized interest.

Financial Feasibility

The total project cost is to be funded from a combination of external financing and UCHS Net Revenues. Based on a debt of \$54,860,000 at 6.5 percent interest amortized over 27 years, the average annual debt service is \$4,363,000, and annual operating expenses are estimated at \$3,268,000. Repayment of the debt will be from student rents generated by the proposed addition and from existing UCHS undergraduate residence hall bed spaces at the Santa Barbara campus.

Rates for the San Rafael Housing addition will be \$7,362 per year (room and board for nine months) for the first full year of occupancy (2002-03). Rates for existing on-campus residence halls will be increased 9 percent, or approximately \$711 per year.

Santa Barbara's housing rates will remain below those of the local private sector residence halls. Currently the two private sector residence halls providing the majority of housing to Santa Barbara's freshmen charge approximately \$1,000 (15 percent) more per year for similar housing and dining options. After project completion, campus residence hall rates will still provide a significant value.

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

6. **REPORT ON THE STATUS OF PLANNING FOR AN OFF-CAMPUS CENTER IN THE SANTA CLARA VALLEY**

Chancellor Greenwood recalled that the National Aeronautics and Space Administration plans to build a research park, the NASA Ames Research Center, on 213 acres of land in the heart of Silicon Valley that will bring industry, education, and government together in a collective environment of discovery. The research park will include an astrobiology laboratory, a computer museum, an aerospace museum, and industrial areas. The Santa Cruz campus has chosen to develop an off-campus joint use facility for up to 2,000 students in conjunction with the NASA center. The University's facility would focus on information technology, education, and engineering, thus strengthening outreach, articulation and programming needs to meet the workforce needs of the Silicon Valley. The center would build on the campus' current collaborations with the Foothill-

De Anza Community College District and California State University programs in the region, where UC's extension sites already provide continuing education for 50,000 people. The land use proposal puts UC Santa Cruz in an excellent position with respect to potential industrial partners, to major new research initiatives of NASA Moffitt Ames, and to scientific outreach activities. A coalition of software companies is renovating some areas of the NASA site already. The Santa Cruz campus' center would be a portal for research for the entire UC system and a place to pilot, test, and model new ways of delivering education and conducting research using the technology developed in Silicon Valley and the power of NASA research facilities. It is an opportunity for UC and the Santa Cruz campus to bring to the area badly needed educational programs and highly desirable research programs that span technology and the digital divide in economic issues.

Chancellor Greenwood noted that the University's interest in Silicon Valley blends with what the director of the NASA Ames Research Center, Mr. Harry McDonald, and his colleagues propose to develop on the site. The NASA Moffitt Ames site was identified by the campus as its preferred site for an off-campus center because of its prime location and its potential for attracting multiple partners from industry and education. The campus has a task force and an academic planning group that hope to develop a master plan by 2001 and, following Legislative and Regental approval, to have students in place at the center by fall 2003.

Mr. McDonald discussed NASA's role in the project and its goal of bringing together the Bay Area's major research universities and the information technology industry. He believed that the research park will provide an effective vehicle for developing research and educational opportunities of benefit to both the state and the nation.

The Committee recessed at 1:10 p.m.

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The Committee reconvened on July 20, 2000 at 1:40 p.m. with Committee on Finance Chair Connerly presiding.

Members present: Representing the Committee on Grounds and Buildings: Regents Atkinson, Connerly, Davies, Fong, Hertzberg, Hopkinson, O. Johnson, S. Johnson, Khachigian, Kohn, and Kozberg; Advisory members Morrison and Seymour
Representing the Committee on Finance: Regents Atkinson, Bagley, Connerly, Davies, Fong, Hertzberg, Hopkinson, S. Johnson, Kozberg, Lee, and Miura; Advisory member Morrison

In attendance: Regents Montoya, Moores, and Sayles, Faculty Representatives Coleman and Cowan, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice Presidents Darling and Kennedy, Vice

Presidents Broome, Drake, Gurtner, Hershman, and Saragoza,
Chancellors Carnesale, Cicerone, Dynes, Greenwood, Vanderhoef, and
Yang, Vice Chancellor Bainton representing Chancellor Bishop, and
Recording Secretary Bryan

7. **ADOPTION OF FINAL 2000-01 BUDGETS FOR CURRENT OPERATIONS
AND FOR CAPITAL IMPROVEMENTS**

The President recommended that:

- A. The Committee on Finance recommend that the 2000-01 Budget for Current Operations, as modified by actions of the Legislature and the Governor, be adopted.
- B. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the funding proposed for the 2000-01 Budget for Capital Improvements, as modified by actions of the Legislature and the Governor, be adopted. Consistent with Regents' policy, approval by The Regents for specific projects funded in the final State budget will be sought as projects are developed and ready for approval.

2000-01 Operating Budget

It was recalled that in November 1999, The Regents approved a 2000-01 expenditure plan as described in a document titled *2000-01 Budget for Current Operations*, dated October 1999. The expenditure plan, which built upon the successful strategies of the last five years, was developed in anticipation of a new four-year Partnership Agreement with the Governor. The Partnership Agreement was made final on May 17, 2000.

The budget plan approved by The Regents in November 1999 included funding for salary increases and other fixed costs, workload, and program growth. The Governor's Budget, released in January, proposed full funding for the University's budget request and included additional funds for initiatives beyond the Partnership Agreement.

In the Governor's January budget proposal for 2000-01, the \$202.8 million in State funds provided to support the University's basic budget included funding for the following:

- Budgeted enrollment growth of 6,000 FTE students at the agreed-upon marginal cost.
- Cost increases for student fee-funded programs (avoiding an increase in systemwide mandatory student fees for the sixth consecutive year).
- Compensation increases including continuation costs for 1999-2000 salary increases, merit increases for eligible employees, cost-of-living increases averaging 2 percent for all eligible employees, parity adjustments for other selected employees including faculty, annuitant health benefit cost increases, and an 8 percent increase for employee health benefit costs.

- A 2.5 percent cost increase for nonsalary budgets.
- A 1 percent increase to the base budget for core needs – maintenance, instructional technology, instructional equipment, and libraries.
- \$6 million for strengthening the quality of undergraduate education.
- \$10 million to fund deferred maintenance and maintenance of new space.

Consistent with the Partnership Agreement, \$125 million in additional funding beyond the basic expenditure plan was provided in the Governor's January budget for research, public service, and other initiatives. These initiatives consist of several proposed by the University as high priorities for funding if sufficient State resources were available, as well as several proposed by the Governor. They include:

- \$20 million for research in engineering and computer science, environmental science, UC-Mexico collaboration, and Internet2.
- A significant increase in funding (approximately \$70 million) for teacher professional development programs, including expansion of the California Subject Matter Projects and the California Reading Professional Development Institute, and establishment of new institutes in English, algebra, and math. This significant expansion reflects both the Governor's desire and the University's commitment to establish stronger and more prominent links between K-12 schools and the University.
- Other public service initiatives expanding programs such as the California Digital Library, Cooperative Extension, On-Line Advanced Placement courses, the Summer School for Math and Science, community college transfer programs, and graduate and professional school outreach.
- Funding to begin planning for a regional center in the Santa Clara Valley associated with the Santa Cruz campus.
- \$25 million in one-time funding for equipment for the University's teaching hospitals.

The Legislature approved the January Governor's Budget in full. In addition, the final State budget includes funding proposed by the Governor in his May Revision and approved by the Legislature, as well as augmentations proposed by the Legislature and ultimately approved by the Governor. The funding provided for the University over and above the January Governor's Budget includes the following major augmentations:

- \$19 million (\$12 million proposed by the Governor in the May Revise and \$7 million of an augmentation proposed by the Legislature) in additional funding for staff salary increases beyond the COLA and merit increases included in the University's original expenditure plan. These funds are to be used to provide salary increases primarily for low-paid staff employees.
- \$50 million in funding for Internet2 connectivity for UC and K-12. Of the total, \$18 million is provided as one-time funds to continue the University's effort to connect more faculty and students to Internet2, and \$32 million is provided in permanent funds for a program to help K-12 schools expand their access to the high-speed internet.
- One-time funding of \$20 million for deferred maintenance, instructional equipment, and libraries.
- One-time funding (\$6 million) for geriatrics endowed chairs and research.
- \$13.8 million to reduce summer term fees to a level equivalent with the regular academic year.
- \$42 million for additional research in the following areas: lupus, spinal cord injury, labor policy, alcohol and substance abuse, neurodevelopment disorders (the MIND Institute at the Davis campus), and marijuana use for medicinal purposes. Of the \$30 million provided for the MIND institute, \$28 million is one-time and \$2 million is permanent funding.
- A \$1 million expansion of the Mathematics, Science, and Engineering Achievement program for middle school students.

The final budget provides the University with an increase of \$486 million in State General Funds. With this level of increase, the University's 1999-2000 State General Fund operating budget totals \$3.204 billion, a 17.9 percent increase over 1999-2000. Of this total, \$104 million is for one-time expenditures.

2000-01 Capital Improvement Program

The final State budget includes General Obligation (GO) bond funding of \$212.7 million for capital projects approved by The Regents in November 1999. In addition, the State budget includes \$133.7 million in State General Fund augmentations beyond the University's original capital request, and authority for \$600 million in lease-revenue bonds for compliance with seismic requirements for the University's teaching hospitals.

Because the projects proposed for GO bond funding were approved by The Regents in November 1999, no further action is required. Also, the Board is not being asked at this time to approve individual projects newly included in the State-funded capital outlay program, pending development of specific projects by the campuses. However, The Regents is being asked to approve funding levels for the new proposals described below. Consistent with Regents' policy, all projects approved by the Governor and the Legislature that were not originally approved by The Regents in November 1999 will be brought before the Board for approval as they are developed.

The additional items funded in the final State budget include the following:

- In his January budget, the Governor proposed \$75 million to establish three world-class centers of research aimed at key sectors of the California economy. Legislation accompanying the budget and signed by the Governor incorporates the Governor's proposal to provide the University with \$75 million each year for four years (for a total of \$300 million) for capital and operating expenditures related to the institutes. The level of permanent operating funding for the institutes will be determined through the budget process after the initial four years of funding. The legislation includes a matching requirement of \$2 from private, federal, and other sources to every \$1 of State funding. The University has implemented a competitive process for seeking proposals from campuses, and following an extensive peer review, the best proposals will be selected for funding this fall.
- The Governor's May Revision included two proposals to assist the teaching hospitals in meeting pressing capital needs. This assistance comes at a critical time for the hospitals as their budgets are in serious financial difficulty, due in large part to rapidly deteriorating reimbursements from insurers and the federal government. This is true despite aggressive strategies to cut costs and achieve efficiencies. They are expected to end the year with a minimal operating margin, insufficient to meet basic capital and equipment needs. In recognition of this and other pressing financial obligations related to compliance with State seismic requirements, the Governor proposed the following:
 - \$600 million in lease-revenue bond authority for seismic renovations at the University's five teaching hospitals. SB 1953 (Alquist), the

Hospital Facilities Seismic Safety Act, was enacted in 1994 and requires all acute care hospitals to develop a plan and compliance schedule to make their facilities life safe and operational during and after an earthquake. In the May Revision, the Governor proposed that \$600 million in State Public Works Board lease-revenue bonds be provided to finance the construction, including renovations, of facilities to comply with SB 1953. Initial consultation with the campuses indicates that seismic solutions needed to comply with SB 1953 range from seismic strengthening, to replacing hospital wings, to replacing the entire hospital at UCLA.

- \$50 million to fund non-seismic infrastructure needs at the University's teaching hospitals. The size and age of the University's teaching hospital facilities result in a continuing need for major capital outlays to maintain physical condition, meet stringent code and health requirements, and provide improvements essential to good patient health care. The funds will be used to design and construct infrastructure upgrades that would improve or extend the useful lives of the existing teaching hospital facilities. Such projects may be done in conjunction with seismic projects needed for compliance with SB 1953.
- Also important to the teaching hospitals is implementing legislation associated with the final State budget that provides for a two-year extension of the graduate medical education funding program. This program uses State funds to leverage federal dollars to help fund the costs of providing graduate medical education at UC teaching hospitals.
- The Governor has proposed that the Merced campus open in fall 2004 rather than in 2005 as previously planned, and he established a special task force to facilitate the accelerated opening of the campus. In the May Revision, the Governor proposed an additional \$4.7 million for the University's budget to fund working drawings for the Science and Engineering Building and the Library/Information Technology Center, which were originally scheduled to be funded in 2001-02. At the same time, to permit the flexibility of project delivery, the Governor proposed that the University be authorized to proceed with construction by means of design-build procurement.
- Although not in the University's budget, the Governor also proposed and the Legislature approved \$30 million for the Wildlife Conservation Board to acquire approximately 60,000 acres adjacent to the Merced campus that will help ensure the protection of wetlands, waterways, and wildlife around the campus, and \$13.8 million for the Department of Fish and Game to assist development and implementation of various natural resources conservation plans related to construction of UC Merced and protecting the surrounding environment.

- The Legislature augmented the University's budget by \$4 million to begin planning for an additional veterinary medicine facility at the Davis campus. The project is intended to help the school address accreditation problems. The Governor's message in sustaining the augmentation in the budget indicates that this funding is approved only for purposes of achieving accreditation and not for program enhancements. The campus is developing a specific project proposal.

Vice President Hershman commented briefly on the budget, highlighting specific items.

Regent Hopkinson expressed confidence in the course the Regents have undertaken to examine the University's budget priorities.

Regent O. Johnson asked what the administration's plan was to increase the salaries of its lower-paid employees. Mr. Hershman reported that the University is committed to using most of the allocation to increase salaries for those employees who make between \$30,000 and \$40,000 annually. He believed there will be a minimum of 2 percent above what was in the original budget for this purpose. Higher-paid workers will receive increases of about 3.5 percent, based on the original Regents' budget.

Regent Bagley reminded the Regents that in 1960, 60 percent of the University's General Fund was provided by the State. He observed that the current level is only 30 percent.

Regent Kozberg expressed her satisfaction with the provision for lease-revenue bonds to support the University's hospitals. She asked whether each project returns to the Legislature or to the Board of Public Works for approval. Mr. Hershman explained that each goes to the public works board as it is ready and has received Regental approval.

Chairman Johnson thanked the Governor, the Speaker, the Legislature, and the University's administrators who were responsible for negotiating the budget, but she noted that the capital outlay portion of the budget was somewhat disappointing in that it provides insufficient money for growth. She stressed that to do seismic repairs and accommodate growth, the annual need for the University is \$618 million.

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

8. **POLICY CONSIDERATIONS GUIDING THE DEVELOPMENT OF THE 2001-02 UNIVERSITY OF CALIFORNIA BUDGET**

It was recalled that discussions of policy considerations guiding the development of the budget for 2001-02 were ongoing in preparation for presentation of the 2001-02 budget at the November meeting.

The Partnership Agreement with the Davis Administration, which was mailed to all Regents on May 19, 2000, represents a four-year commitment to provide the funding needed to maintain quality and access at a time when the University's enrollment is anticipated to grow by approximately 5,000 students per year for the next decade. This funding will provide compensation increases for faculty and staff, fixed cost increases, funding to support enrollment growth at the agreed-upon marginal cost, and support for core needs such as instructional equipment, instructional technology, maintenance, and libraries. The Partnership also recognizes that each year, the University may request funding above the basic budget for special initiatives that are of importance to the State, such as research initiatives, outreach and public service programs to improve K-12 schools, development of off-campus centers, opening new campuses, and the cost of legislation approved by the State.

With regard to capital outlay, the Partnership Agreement acknowledges there is one more year of General Obligation bond funding available under Proposition 1A, totaling \$210 million for 2001-02. It also recognizes that the Administration will support additional GO bond and or lease-revenue bonds for capital needs beginning in 2002. Specific funding levels for future bonds have not yet been resolved. This will be a major issue over the next year.

The Partnership also includes the following specific commitments on the part of the University:

- Continue to admit all eligible California high school graduates wishing to attend the University.

- Ⓒ Continue to provide students with the classes needed to graduate in a timely manner by maintaining increased faculty teaching loads. The longer-term goal is to phase in a return to the historical student faculty ratio of 17.6 to one, with the increase in faculty devoted to strengthening the quality of undergraduate education.

- Continue a commitment to maintain improved student outcomes with respect to graduation and retention rates.

- Develop, implement, and evaluate the "4 percent path" to eligibility.

- Ⓒ Continue a commitment to maintain competitive faculty salaries, with an emphasis on merit-based salary programs.

- Ⓒ To the extent that the community colleges increase the number of "transfer ready" students, increase the number of California Community College students who transfer to UC.

- C Assume greater responsibility in working with K-12 schools to help improve K-12 student performance; expand outreach programs to improve the academic preparedness of K-12 students, especially students from disadvantaged backgrounds; and increase opportunities for K-12 teachers to participate in professional development programs by expanding existing programs such as the California Subject Matter Projects and the California Reading Professional Development Institute and developing new institutes in mathematics, algebra, and English.
- C Commit to playing a greater role in the preparation of K-12 teachers by increasing the number of students enrolled in teacher credential programs in 1998-99 from 1,000 to 2,500 students by 2002-03.
- C Develop and implement a teacher scholars program to provide 400 students the opportunity to earn a combined Masters' and Teacher Credential in 15 months.
- C Expand the number of joint doctoral degree programs offered in collaboration with the California State University
- C Improve the productivity and use of existing facilities.
- C Reach agreement with the Administration and the Legislature on a plan for phasing in implementation of a State-supported term by summer of 2001.
- C Help maintain California's competitiveness through continued investment in research, including development of three California Institutes for Science and Innovation.
- Place a priority on producing graduates who will meet California's workforce needs, including an increase between 1998-99 and 2005-06 of at least 50 percent in the number of engineers and computer scientists trained at UC.
- C Increase opportunities for students to participate in community service activities.

Vice President Hershman highlighted some details of the policy guidelines.

President Atkinson noted that the University is placing special emphasis this year on promoting initiatives that will make it easier to transfer from community colleges and will enhance graduate education, including putting more money into salaries for graduate students working on research.

Mr. Eli Ilano, president of the University of California Student Association, distributed a student services budget proposal for 2001-02 that the Association believes would address the needs of the student community. The proposal is that student service units

receive a \$30 million annual increase in funding provided by shifting \$200 per student from the Educational Fee to the Registration Fee and requesting \$30 million in State money to fill the gap in UC General Funds left from the decrease in the Educational Fee.

Regent Hopkinson asked if the Regents were going to see and approve a comprehensive budget for all funds for the year and if that process will be incorporated for the coming year. Vice President Hershman answered that all funds would be shown in the University's basic budget, although federal funds can be only estimated. The budget will show projections for five years for every campus at a functional level that would cover instruction, research, the hospitals, and public service. Regent Hopkinson hoped that a certain level of detail would be displayed. She also asked to be informed about the amount of money to be spent on initiatives in the current partnership agreement. She expressed the hope that plans to expand the graduate program would be described. Mr. Hershman indicated his intention to provide an update on various accountability issues. Regent Hopkinson explained that she would like to see more than one-line items for projects such as outreach so that she could determine where the allocations were being spent.

Chairman Johnson emphasized the necessity of presenting a budget proposal that portrays the University's needs realistically rather than one that is too conservative. She stressed the need to identify mechanisms that will improve the faculty-to-student ratio to the degree that the University can maintain its status as one of the country's finest schools.

Regent Bagley noted that most money for outreach is directed to K-12. He believed that more should be allocated to the graduate student program. He urged the Regents to try to convince political leaders of the wisdom of investing in capital outlay rather than continuing to reduce individual federal tax deductions.

Regent O. Johnson supported Mr. Ilano's points about the need to enhance student services and hoped that they would be considered during next year's negotiations. She believed that diversity would be increased by providing student services sufficient to enable minority, disabled, and reentry students to succeed.

Regent Davies stated that he had never felt that the Regents play a particularly meaningful role in setting the University's budget priorities. Negotiations to establish the budget take place between the University's representatives and the Governor and Legislature. He stated his interest in discussing the budget in terms of where individual Regents believe money should or should not be spent. Mr. Hershman maintained that the Regents do make a difference when it comes to setting priorities. Negotiations take place within the policies they establish and based on their conversations during meetings. He believed that Legislators pay attention to the Regents' priorities, citing, for example, their willingness to increase faculty salaries and support deferred maintenance. President Atkinson believed that it may seem as though the Regents have little input because the process takes place over such an extended period.

Regent Connerly agreed that, although the Regents may not influence the budget, they help shape priorities. He observed that the gap between the University's market-based fees and those of its competitors is widening. Every year a structure is being built that cannot be supported without a buy down of fees by the Legislature. If the economy takes a downturn, fees will have to be raised by 40 percent.

Regent Hertzberg reported that, as Speaker of the Assembly, he is very aware of the Regents' priorities and devotes time to each line item in the budget.

9. **ENDORSEMENT OF SCHOOL FACILITIES BOND INITIATIVE FOR NOVEMBER 2000 BALLOT**

The President recommended that the Committee on Finance recommend that the Board take a position in support of the Smaller Classes, Safer Schools and Financial Accountability Act that amends the California Constitution to allow passage of local school bond issues with a 55 percent vote, rather than the two-thirds vote currently required. The measure has been approved for the November 2000 general election ballot.

It was recalled that in November 1999, The Regents took a position in support of Proposition 26, scheduled for the March 2000 primary election ballot, that would have authorized simple majority approval for local General Obligation bonds of school districts, community college districts, and counties. That measure was narrowly defeated by the voters. The only significant change in the new measure is that the approval threshold has been increased from a simple majority to 55 percent. The act would implement measures to provide accountability for local school bonds by including annual performance and financial audits and a requirement that a specific list of projects to be built with bond money be provided to voters. In addition, the measure requires that public school facilities be shared fairly among all public school pupils, including those in charter schools. The initiative stipulates that each school district shall make available to each charter school operating in the school district facilities sufficient for the charter school to accommodate all of the school's in-district students in conditions reasonably equivalent to those of other public schools of the district.

The State's K-12 public school enrollment is expected to increase by nearly one million students over the next decade, according to the California Department of Finance. In order to accommodate these students, the California Department of Education estimates that as much as \$46.6 billion will be needed to repair existing facilities and to build new facilities. More than half of California's schools were built at least 30 years ago, and more than 30 percent of school buildings in California are temporary.

In addition to the growth expected in public school enrollment, as a result of legislation passed in 1996, K-12 schools have reduced their class sizes to 20 students in the lower grades. Prior to class size reduction, the ratio had been 36 to 1. An estimated 20,000 new classroom spaces and 500 new schools will be required to accommodate this class

size reduction and enrollment growth. This situation, coupled with the fact that class size reduction is being considered for higher grades, exacerbates the need for new and renovated facilities. At the same time that schools are feeling the pressure of burgeoning growth, State and local school boards of education have significantly raised the standards for the quality and level of instruction provided to K-12 students. Moreover, new measures of accountability for student learning outcomes at all grade levels are pressing on schools and teachers throughout California. In short, the public and its authorized representatives are demanding results from a system that is severely strained in terms of its capacity to deliver.

The University of California has a long history of distinguished service to the State's K-12 system and is intensifying efforts in critical areas. For example, the University is committed to the following: doubling the number of students prepared in its teacher education program within the next three years; preparing 400 principals per year for service in disadvantaged schools and districts; and offering intensive training programs for under-prepared (non-credentialed) teachers in reading and algebra, as well as for teachers of English language learners. Within the context of these efforts, UC draws heavily on applied faculty research to formulate program designs and to continually monitor and evaluate quality and effects. Complementing these efforts is a vast array of University outreach programs designed to assist students in overcoming educational disadvantages to better prepare them for admission to UC.

The ultimate success and sustainment of the University's efforts to improve K-12 education and attract the best and brightest young people to the education profession depend in large measure on the extent to which K-12 facilities are structurally safe, modernized, and educationally sound.

If this measure enables more K-12 and community college facilities to be funded at the local level, the pressure on the State to fund these facilities through general obligation bonds will lessen and will potentially allow for more State support for public university facilities. The Legislative Analyst and Director of Finance summarized the fiscal impact on State and local governments: "This measure would result in the following major fiscal effects: (1) Increased debt costs for many school districts, depending on local voter approval of future school bond issues and varying by individual district. Statewide, costs could be in the hundreds of millions of dollars each year within a decade; and (2) unknown effect on State costs. Potential longer-term State savings to the extent local school districts assume greater responsibility for funding school facilities."

Historical Background: Two-Thirds Vote Requirement

The State constitution requires a two-thirds vote on all local general obligation bonds. Local school district bonding capacity was reinstated in 1986. From 1986 to 1999, there have been 473 attempts by school districts to pass general obligation bonds, with half passing during that time. The successful measures authorized more than \$8.7 billion

in capital expenditures, while the aggregate of the unsuccessful measures totaled \$6.8 billion.

There have been several legislative efforts to remove the two-thirds vote requirement since 1990, including SCA 12 (O'Connell) in 1997, which was co-sponsored by Governor Wilson. In 1993, Proposition 170, which would have authorized majority approval for local general obligation bonds of school districts, community college districts, and counties, failed at the polls. Most recently, Proposition 26 on the March 2000 primary election ballot was narrowly defeated.

Other Background

In 1998, California voters approved Proposition 1A, a statewide education bond act to provide \$9.2 billion, over four years, for new construction and repairs of public elementary schools, high schools, community colleges, and universities. Of that amount, \$6.7 billion was allocated to K-12 schools. However, school districts can receive Proposition 1A funds only if they can generate matching funds through any combination of local bonds, developer fees, and other sources of local funds.

Arguments in Support Of and Against Proposition 26

The Secretary of State's office will issue the November 2000 ballot measures for public display on July 25, at which time official arguments for and against each measure will be available.

Governor Davis is the chair of the campaign and has announced that former Governor Wilson will serve as co-chairman of the campaign. Silicon Valley business leaders John Chambers, John Doerr, and Reed Hastings are also campaign co-chairs.

The following are among the organizations that have endorsed the measure: the American Federation of State, County, and Municipal Employees; the California Building Industry Association; California Business Roundtable; California Chamber of Commerce; California Manufacturers and Technology Association; California School Boards Association; California State PTA; and the California State University. The only known opposition at the present time is the Howard Jarvis Taxpayers Organization.

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

The meeting adjourned at 2:50 p.m.

Attest:

Secretary