The Regents of the University of California

COMMITTEE ON FINANCE
November 17, 2004

The Committee on Finance met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents Connerly, Dynes, Kozberg, Lee, Lozano, Núñez, Ornellas, Parsky, and Sayles; Advisory members Juline, Rominger, and Blumenthal

In attendance: Regents Anderson, Johnson, Marcus, Montoya, Novack, O'Connell, Pattiz, Preuss, and Ruiz, Regent-designate Rosenthal, Faculty Representative Brunk, Secretary Trivette, Associate Secretary Shaw, Treasurer Russ, Provost Greenwood, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Foley, and Hershman, Chancellors Bishop, Carnesale, Cicerone, Córdova, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chemers, Executive Vice Chancellor Gray representing Chancellor Birgeneau, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 2:00 p.m. with Committee Vice Chair Lee presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of September 22, 2004 were approved.

2. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR NEUROSCIENCE BUILDING, PHASE 1, DAVIS CAMPUS**

The President recommended that, subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

> Davis: <u>Neuroscience Building, Phase 1</u> – preliminary plans – $5 million to be funded from campus and gift funds.

It was recalled that the Neuroscience Building, Phase 1 project will be funded through a combination of gift funds, campus funds, and overhead funds generated by the project. The construction of a research laboratory building will be executed in two phases, with preliminary plans being undertaken for both phases with this approval. The Phase 1 building will provide laboratories and support and office space for 30 to 35 principal investigators conducting federally funded research in neuroscience. The Phase 1 building will also contain housing for primates, rodents, and other animals critical to laboratory research. The Phase 2 building will provide laboratory, support, and office space for 32 to 37 neuroscience researchers.

Neuroscience is a critical component of biology at UC Davis, encompassing a wide range of multidisciplinary research in molecular and cellular processes, cognitive and sensory functioning, neurological disease, and bioinformatics. Campus programs in neuroscience have grown rapidly over the past two decades, earning international recognition and considerable extramural financial support. UC Davis is widely acknowledged as a premier center for systems and cognitive neuroscience research and as a rising star in molecular and developmental neuroscience.

Lack of laboratory space is constraining growth, both in expansion of research by faculty and in recruitment of new neuroscientists. Existing laboratories are dispersed in several buildings on and off the core campus, hindering collaborative efforts within increasingly multidisciplinary fields. Animal housing for primates and rodents is fragmented, inefficient, and fails to meet modern security standards. A new building will promote program growth and recruitment, consolidate research activities, and replace obsolete animal housing space. Neuroscience is multidisciplinary, integrating molecular and cellular biology, neurology, human development and cognition, neurological diseases, and other fields. Consolidation in one area of the campus will facilitate collaboration and promote integrative approaches into promising research areas.

Project Description

The Neuroscience Building, Phase 1 will contain 65,000 to 75,000 asf, including office, laboratory, and vivarium space. The Phase 2 Building will contain approximately 52,000 asf. The Center for Neuroscience research faculty will be housed in the two facilities, as will neurobiologists from the Division of Biological Sciences and the School of Medicine.

CEQA Classification

In accordance with the California Environmental Quality Act (CEQA), and the University of California Procedures for the Implementation of CEQA, an Environmental Impact Report will be prepared to analyze the potential environmental effects of the Neuroscience project. This document will be presented to The Regents for review at the time of project design consideration.

Funding Plan

The total project cost for the Neuroscience Building, Phase 1 will be between $58 million and $62 million. Expected fund sources include gifts, campus funds, and overhead funds generated by the project. Total project cost for the Phase 2 Building is expected to be between $40 million and $43 million, to be funded from gifts and additional overhead funds generated by the project.

Future Regental Action

The campus will return to The Regents to request the amendment of the Budget for Capital Improvements and the Capital Improvement Program for the total cost of the Phase 1 Building and approval of financing at the conclusion of the preliminary design phase. Regental approval of the full budget for the Phase 2 Building will be requested at a later date.

Upon motion duly made and seconded, the Committee 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 AMENDMENT OF EXTERNAL FINANCING FOR UCI MEDICAL CENTER REPLACEMENT HOSPITAL, IRVINE CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended to reflect the following changes:

From: Irvine: UCI Medical Center Replacement Hospital – preliminary plans, working drawings, construction, and equipment – $336,681,000 to be funded from State lease revenue bonds ($235,000,000), external financing ($32,918,000), hospital reserves ($472,000), capitalized leases ($20,791,000), and gift funds ($47,500,000).

To: Irvine: UCI Medical Center Replacement Hospital – preliminary plans, working drawings, construction, and equipment – $371,720,000 to be funded from State lease revenue bonds ($235,000,000), external financing ($62,920,000), hospital reserves ($5,509,000), capitalized leases ($20,791,000), and gift funds ($47,500,000).

B. The President be authorized to obtain external financing not to exceed $62,920,000 to finance the UCI Medical Center Replacement Hospital project, subject to the following conditions:

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

(2) Repayment of the debt shall be from hospital revenues.

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

C. 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.

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

It was recalled that a $35,039,000 budget augmentation and an increase in external financing are required for the UCI Medical Center Replacement Hospital, based on recent spikes in construction costs and on market conditions that were unanticipated at the time the project was originally budgeted. Additional external financing of $30,002,000 and an increase in hospital reserves funding of $5,037,000 are needed to support the requested augmentation. Approval is requested also to effect a building efficiency ratio change for the new hospital from 44 percent to 39 percent, due in part to a 49,640 increase in gross square footage that represents primarily unimproved, unoccupiable basement space which resulted from changing the foundation system in order to save costs.

The Irvine campus will construct a 189,996 asf (482,428 gsf), 191-bed hospital at the UCI Medical Center to replace the existing 118,500 asf main hospital building as well as essential acute care space in three other seismically poor buildings, all of which must be upgraded or replaced by 2008 in order to comply with California law. In addition, the project will support associated seismic upgrades in the existing Building 1A and central plant facilities.

History of Approvals and Project Description

The 2000-01 Budget Act authorized $600 million in State lease revenue bonds to provide the University's teaching hospitals with funding to address seismic deficiencies as required to comply with SB 1953. In November 2000, The Regents allocated $235 million of these funds to the Irvine campus to construct a replacement hospital and to implement other SB 1953 upgrades at the UCI Medical Center. In March 2001, the State Public Works Board approved the scope and cost of the project. At the May 2001 meeting, the Regents were advised of UCI's plan to use this State funding to construct a 162,500 asf hospital with 186 beds and ten operating rooms, and to implement other required seismic corrections. At that time, it was explained that the Medical Center was working to identify other fund sources to expand the project scope in response to the growing demand for services and other programmatic requirements. Detailed programming was then completed and a plan developed to accomplish the Medical Center's highest priorities by supplementing the budget with gift funds, hospital reserves, and external financing. At its March 2002 meeting, The Regents gave approval to proceed with the preliminary plans phase of the project. In January 2003, The Regents approved the project design and authorized the campus to move forward with the working drawings phase. At the May 2003 Regents meeting, full project approval was given, along with approval of external financing, allowing the campus to put the project out to bid upon completion of design.

The project consists of three elements: construction of the new hospital, with 191 beds, 13 operating rooms, diagnostic and treatment facilities, administrative and support services, and other acute care functions; associated renovations and non-structural SB 1953 bracing in Building 1A, including reconfiguration of the emergency room and provision of a new ambulance entrance; and construction of a new chiller plant and required utility upgrades to existing central plant facilities, as well as structural and non-structural improvements mandated by SB 1953 legislation. The project also includes demolition of Building 1.

Reasons for Increased Costs

After the budget for the replacement hospital was set and the project went out to bid in early December 2003, both local and worldwide construction market conditions resulted in unprecedented price spikes that could not have been anticipated. Reflecting these conditions, the first bid exceeded the available funds by approximately $60 million. The factors affecting the bid are as follows:

- Market conditions for construction materials: Increased demand for construction materials, due in large part to the current economic boom in China, as well as the weakness of the dollar compared to other currencies, contributed to a spike in prices. In the weeks surrounding the preparation of the bids, several trades reported material price increases of 10 to 20 percent per week; as a result, many subcontractors added high contingencies to their bids, which were not anticipated by UCI, the cost estimator, or even the general contractors. In the months since the original bid, this trend has not changed.

- The Southern California building boom: A heavy demand for skilled construction labor has depleted the local labor market; moreover, there are very few mechanical, electrical, and plumbing (MEP) subcontractors that can bond and perform a project of the scale and complexity of the replacement hospital, in which the MEP systems represent more than 50 percent of the total construction budget.

- Office of State Health Planning and Development (OSHPD) code interpretation and inspection issues: Drawing on recent hospital construction experience, the bidder built in costs to account for the stringency of OSHPD inspection requirements, which have been resulting in unanticipated delays and a great deal of work having to be redone on other comparable projects. Costs were also raised to account for anticipated schedule delays resulting from recent increases in OSHPD's inspection workload.

Strategies for Savings

Following receipt of the first bid, UCI had numerous meetings with general contractors and subcontractors to investigate and understand the issues surrounding the very high bid.

This effort, in association with an exhaustive value engineering process, significantly narrowed the budget gap through a variety of strategies, including the following:

- Architectural and engineering changes to reduce the amount of construction materials in the building, including eliminating the icon structure above the building, modifying the public elevator tower to integrate it more closely with the building, reducing the floor-to-floor height of the upper levels and thereby reducing the overall height of the structure by seven feet, revising the structural system in certain areas to reduce steel quantities, changing aesthetic finish materials, and modifying mechanical systems and specialties.

- Program modifications, including making shall space of two procedure rooms and the administrative suite, eliminating the Building 1A emergency room remodel, replacing the new central plant building with an equipment enclosure, and deferring the demolition of Building 10 and the associated redevelopment of its site to a separate future project. Changes in specifications, bid documents, and bidding requirements to reduce uncertainty and enable more competitive pricing, including changes in some of the requirements for bonding, relaxing of pre-qualification requirements for a number of subcontractor trades, streamlining and clarifying bid documents, and broadening specifications for certain products and systems.

- Reducing the risk factor related to OSHPD plan review and inspection by filing completed structural construction documents for OSHPD review prior to the rebid, streamlining the field inspection process by seeking agency approval of mockup installations for items such as drywall in advance of the actual construction, and streamlining the documentation process for approval of changes during construction.

Even with these reductions and other strategies, estimates indicated that the project still was over the approved budget by approximately $35 million.

Process for Project Rebid

In July 2004, the campus reopened the bid process, recognizing that a budget augmentation would be necessary and that award of the contract would be contingent upon Regental approval of such an augmentation. Campus officials made every effort to solicit interest from additional contractors in order to ensure an accurate and competitive bid. Two general contractors filed and were qualified to bid; however, only one bid was received. As had been projected, the bid, which was opened on October 4, 2004, exceeded the approved construction total, resulting in a budget shortfall of $35,039,000. In anticipation that a single bid might be submitted, the campus took steps to ensure that such a bid represented fair market value by contracting for an independent cost estimate to be submitted sealed on the bid day and by retaining an experienced construction firm to assist in post-bid evaluation of all subcontractor prices. In-depth review of the bid in relation to these measures found it to be consistent with current market costs.

Project Schedule

Construction of the replacement hospital is scheduled to begin in December 2004, with occupancy in March 2009. The Medical Center has applied for an extension of the SB 1953 2008 deadline.

Other Related Costs

At the time the replacement hospital project was approved, a number of other necessary project-related costs were identified that are being addressed separately. As a result of new information and changes made to the project to reduce costs, these expenses have increased somewhat and are now estimated at approximately $33,396,000, plus $1,500,000 in annual lease costs. The funding source for these items will be hospital reserves, unless otherwise noted.

Capital campaign costs: The administrative costs associated with conducting the gift campaign for the hospital total $2.5 million and will be funded from gifts.

Additional project contingency. Because of the enormous complexity associated with building a new hospital, the campus has taken the precaution of setting aside an additional 5 percent construction contingency ($11,502,000) to address any unforeseen conditions or issues that may arise.

Relocation of rehabilitation services: To free capacity in the new hospital for high-acuity services, the Medical Center is planning to relocate rehabilitation services to Building 3. The cost of this relocation, including required renovations to Building 3, is estimated to be $1.5 million. Work will start in late 2004-05.

Replacement parking: A surface parking lot will be constructed on a 3.8-acre parcel of land recently purchased for $4,000,000 to replace the spaces lost through demolition of the parking structure on the site of the new hospital. The cost of these parking improvements is estimated to be $1,212,000. Construction of the new lot will commence following completion of the new hospital, as this site will be used for contractor offices and construction parking.

Lease space and relocation costs. The demolition of Buildings 2 and 11 to make way for construction of the new hospital will result in the displacement of College of Medicine and Medical Center activities. As a short-term solution, space will be leased in the surrounding community to replace the 32,300 asf that will be demolished. The Medical Center is setting aside approximately $1,500,000 a year to cover lease costs, plus $4,367,000 for relocation expenses and site preparation costs. Longer-term options for replacing the space in Buildings 2 and 11 are being evaluated.

Food service. It is anticipated that the food service and cafeteria areas of the new hospital will be designed and constructed working with the Medical Center's food service provider to complete tenant improvements. While it is anticipated that the food service provider will fund these costs, an additional $3 million has been included from reserves as a contingency.

Interest during construction for interim standby financing on gifts. An additional $2.7 million has been anticipated for this purpose.

Finishing costs. An additional $2,265,000 is being provided for interior seating, window treatments, tackable surfaces, and exterior signage. Also included is electric service to the new hospital during the construction period.

Demolition of Building 10. After completion of the new hospital, Building 10, which is rated seismically poor, will be demolished, at an anticipated cost of $350,000.

Associated Routine Costs – Equipment and Furniture

There are also a number of routine equipment and furniture expenditures that the Medical Center budgets for each year. Plans for the new hospital include purchasing, over the next five years, equipment that is ultimately intended for the new facility but that will be used initially in the existing hospital, including bedside computing, wireless connections, and communications equipment. Additionally, as funds become available, furniture in all public waiting areas and lobbies will be sequentially replaced. Patient room furniture – excluding hospital beds, which are being provided as part of the replacement hospital project – will also be replaced. The total estimated cost of $28,803,000 will be funded from a combination of Medical Center reserves ($3,168,000) and intermediate-term equipment leases ($25,635,000).

Funding Plan and Financial Feasibility

Gift Campaign. The funding plan requires a community-based capital campaign of $47.5 million for the project, excluding $2.5 million for campaign costs. There is broad community support for a new hospital facility for Orange County's only academic medical and first-level trauma center. As of August 31, 2004, the gift campaign status is as follows:

Cash gifts in-hand	$ 4,500,000	
Pledges received	11,000,000	
Gifts to be raised	15,000,000	
Gifts to be raised	7,000,000	(backstopped by Medical Center)
Total	$47,500,000	

Standby financing of $10.6 million and interim financing of $19.4 million were approved by The Regents in May 2003. The Medical Center is backstopping gifts equal to $17 million with additional hospital reserves.

The campus is confident that it will be able to raise the remaining $32 million in gift funds for this project; however, in the event the collection is insufficient, the campus has identified the potential to incur debt of up to $15 million repaid from the ongoing Dean's assessment on clinical practice revenue and $11 million repaid from the Irvine campus Opportunity funds generated by the School of Medicine research programs. The amount of gifts backstopped by campus and Medical Center funds totals $43 million, equal to $11 million of pledges received and $32 million for gifts to be raised.

Standby/Interim Financing: Standby debt of $11 million is backstopped by campus Opportunity Funds within the prescribed limit. In FY 2009-10, the first full year of occupancy, 61.2 percent of campus Opportunity Funds are pledged for debt service. The commitment increases to 65 percent when all future planned projects are included.

Should the campus be unable to raise the additional gifts, the $15,000,000 of interim financing may have to be repaid over 30 years at 6.125 percent, for potential annual debt service of $1,109,000. The investments in the business development plan are expected to yield positive results for both the hospital and the faculty practice plan, increasing revenue from the Dean's assessment by 5 percent. Whereas a few years ago the UCI faculty practice provided care to a largely underfunded patient population, UCI has successfully developed into a major referral center with a mix of patients more representative of the community. In FY 2009-10, the first full year of occupancy of the hospital, $4,500,000 of Dean's assessment revenue will be generated. Estimated annual expenses for this revenue source are $3,125,000. With the potential debt service requirement of $1,100,000, the Dean's assessment revenue will provide debt service coverage of 1.25.

External Financing. The portion of the project to be funded from external financing is $62,920,000. Based on long-term debt of this amount amortized over 30 years at 6.125 percent interest, the estimated average annual debt service is $4,632,400. Repayment of this debt will be from hospital operations.

Financial Projections

Beginning in July 2001, the Medical Center and the College of Medicine created a five-year business development plan to strengthen a range of specialized clinical programs aimed at making UCI the referral center of choice in the region. The key to this plan was the recruitment of thirty-three new clinical faculty distributed among seventeen specialty services, which was the major component of the $35 million investment required to implement the plan over the five years. At the end of year three of the plan, FY 04, forty new physicians have been hired. These new physicians have increased the Medical Center's services in burn, cardiovascular disease, diabetes, digestive diseases, hepatology, minimally invasive surgery, neuroscience, oncology, senior health, trauma, urology and women's health.

After the first three years of the business plan implementation, discharges to the Medical Center have increased by 19 percent over the base fiscal year period, for an average growth of 5.9 percent per year. Ambulatory encounters are 10.1 percent greater than the base year period, for an average annual growth of 3.2 percent. Actual year-end net income has exceeded the base year by an average of 69 percent per year and has exceeded the business plan by 17 percent ($16.3 million) over this three-year period. At the end of the third year, cash reserves of $48 million are $33 million higher than the base year and $16 million higher than the business plan projection.

Patient activity is projected to continue to increase with the full implementation of the business plan over the several years. Discharges are projected to grow an average of 3.2 percent annually over the next seven years, with higher growth initially, then slower growth as inpatient bed capacity is approached. This projected growth is the result of a combination of new admissions generated by the forty new physicians mentioned above and projected population growth in the region.

Average daily census is projected to grow from the current year level of 286 to 325 by FY 11, resulting in an occupancy rate of 80 percent. The average daily census growth rate over this period is slightly lower than the growth in admissions, due to an anticipated decline in average length of stay from the current 5.9 days per admission to 5.3 days by FY 11. This reduction is due, in part, to national changes in the delivery of health care, which results in shorter hospitalizations. In addition, the Medical Center's business plan anticipates increased growth in minimally invasive surgical cases that will result in significantly shorter hospital stays.

Outpatient encounters are projected to increase by about 4 percent per year for years four and five of the business plan, slowing to a 0.7 percent growth rate by FY 07 through FY 11, as full clinic capacity is reached. Encounters will increase from current levels of 594,000 per year to 693,000 by FY 11.

Operating revenues are projected to increase from the planned growth in patient volumes, a continuing improvement in patients' sponsor mix, improvements in managed care contract reimbursement rates, and rate increases. Partially offsetting this growth in revenue are potential reductions in several government programs. Given the State budget crisis and discussions in Washington regarding Medicare and Medicaid reform, it is difficult to project when and to what extent reductions will occur, but the financial projections include best estimates of the Office of the President regarding the impact of changes to these programs. The most significant of these anticipated changes is the State's Medi-Cal financing reform.

Expenses per adjusted patient day are projected to increase at an annual average rate of 4.5 percent in FY 05 through FY 11. This rise in costs is due to inflation in salaries and benefit costs, including a 3 percent retirement expense beginning in FY 07, supplies, drugs, and other expenses. Projected increases in staff are consistent with the planned growth in patient activity. Total expenses per year increase from $362 million in FY 04 to $565 million by FY 11. This increase is the result of both the inflationary price and business plan volume increases and in FY 10 and FY 11 the increase in depreciation and interest costs associated with the new hospital.

Net income is projected to continue at an average of $41 million per year from FY 05 through FY 09, and then decrease to $18 million per year in FY 10 and FY 11 when the new hospital opens and the depreciation and interest expenses increase with the new building and debt. Expressed as a percentage of revenue, these gains will result in an average gross margin, before College of Medicine support transfers, of 8.7 percent during the period through FY 09, then 3.3 percent when the new hospital opens.

Capital investments for equipment over the seven-year projection period prior to the new hospital's opening are expected to average $10.6 million per year. This includes routine equipment replacement programs, additional investments in computer systems, and radiology equipment. Capital facility projects are planned at about $3.6 million per year over the seven-year period. Support for College of Medicine programs, including business plan investments, is projected to average $18.1 percent per year.

Cash balances are projected to exceed 62 days of unrestricted cash by the end of FY 05, increasing to 75.2 days by FY 09 with the opening of the new hospital and increasing slightly to 75.8 by FY 11. The debt service coverage ratio is projected to drop from the FY 04 level of 6.9 to a low in FY 10 of 2.2, then to increase to 2.4 by FY 11. Debt to capitalization remains less than 30 percent during the projection period and drops to 11 percent by FY 11 when the new hospital becomes operational.

All of the financial projections described above rely upon the best estimates of the Medical Center and the Office of the President. Because of the volatility of the healthcare marketplace, the Medical Center has also developed a number of alternative financial projections and sensitivity analyses to provide a range of results given various scenarios. These include changes in staffing levels, salary and benefit inflation, non-salary inflation, business plan growth, reimbursement levels, and payor mix. Also included are estimates of the potential impact from Medi-Cal reform and new programs from the Orange County's CalOptima program. Under each of these variations the financing plan proposed remains viable.

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

4. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND AMENDMENT OF EXTERNAL FINANCING FOR CNSI COURT OF SCIENCES BUILDING, LOS ANGELES CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Los Angeles: CNSI Court of Sciences Building – preliminary plans, working drawings and construction – $149,100,000 to be funded from the State through the California Institutes for Science and Innovation program ($61,175,000), external financing using the Garamendi funding mechanism ($50,000,000), and in-kind gift funds ($37,925,000).

To: Los Angeles: CNSI Court of Sciences Building – preliminary plans, working drawings and construction – $149,100,000 to be funded from the State through the California Institutes for Science and Innovation program ($61,175,000), external financing using the Garamendi funding mechanism ($70,000,000), in-kind gift funds ($12,925,000), and campus funds ($5,000,000).

B. The President be authorized to obtain financing not to exceed $70 million to finance the CNSI Court of Sciences Building project, subject to the following conditions:

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

(2) Repayment of the debt shall be from the Los Angeles campus' share of the University Opportunity Fund.

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

C. 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.

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

It was recalled that California NanoSystems Institute (CNSI) is one of the four new California Institutes for Science and Technology (Cal ISI) approved for implementation in the Budget Acts of 2000 and 2001. In January 2001, The Regents amended the Capital

Improvement Program and Budget for Capital Improvements to include, for preliminary plans only, the "CNSI Court of Sciences Building" and the "CNSI/Engineering 1 Replacement Building" projects, as they were then called, as part of the California Institutes for Science and Innovation program. Since that time, CNSI has been consolidated into a single campus project.

At the May 2002 meeting, The Regents approved the CNSI Court of Sciences Building project at a total cost of $149,100,000, to be funded from the State through the California Institutes for Science and Innovation program ($61,175,000), external financing ($50,000,000) and in-kind gift funds ($37,925,000). In July 2002, The Regents approved the design for the project and certified the Environmental Impact Report.

The project will construct a 117,777 asf (188,229 gsf) building for the California NanoSystems Institute that includes wet and dry research laboratories designed for basic and applied multidisciplinary nanosystems research in chemistry, biology, physics and engineering; shared laboratory support; imaging and fabrication facilities; a data center; auditorium and meeting rooms; research offices; and administrative offices.

Budget Reallocation

Following Regental design approval, construction documents were completed and the project was bid. In order to accelerate the schedule, bids were issued under separate packages for site clearance and excavation (BP0), shell and core (BP1), and tenant improvements (BP2). While BP0 was awarded under budget, bids received for BP1 and BP2 significantly exceeded pre-bid construction estimates in spite of value engineering efforts and re-bidding strategies that were employed to reduce costs. The increased costs are attributable mainly to market conditions that have also impacted other projects bid during the same time period. With respect to tenant improvements, a series of bid packages for major trades such as HVAC, drywall, and plumbing has been awarded, and it is anticipated that most of the remaining packages will be awarded by the end of 2004; however, the project has experienced no net budget increases due to the budget reallocation discussed below.

Net Construction Cost Increases (+$24,000,000)
Due to bid results, site clearance and excavation costs decreased by $588,000, and core and shell costs increased by $8,430,000. Tenant improvement costs increased by $15,978,000 due to bid results and projections for future bids. Other costs increased by $180,000 for campus construction related to the tenant improvement work.

Soft Cost Increases (+$1,000,000)
Contingency increased to support the higher construction costs cited above.

Group 2 and 3 Equipment Decrease (-$25,000,000)
Group 2 and 3 equipment allocation decreased by $25,000,000. Outside the plant account, approximately $17,600,000 of equipment has been purchased with operating funds, and an additional $7,400,000 of equipment is anticipated to be purchased in this manner by project completion. All equipment purchases supported with operating funds are made in conformance with University policy on purchasing and accounting.

Financial Feasibility

The total project cost of $149,100,000 includes $125,300,000 to construct the building (including $3,000,000 for non-research related equipment), and $23,800,000 for research equipment. Preliminary planning, working drawing, and construction costs will be funded from $50,300,000 of State funds through the California Institutes for Science and Innovation program, $70,000,000 of Garamendi financing, and $5,000,000 of campus funds. The scientific equipment will be funded from $10,875,000 of State funds through the California Institutes for Science and Innovation program, and $12,925,000 of donated in-kind gifts. It is anticipated that the in-kind gifts will be pledged and received by project completion.

In fiscal year 2007-08, the first full year of occupancy, 49 percent of Opportunity Funds are pledged for debt service. The Los Angeles campus is within the guidelines governing the pledging of campus Opportunity funds for all projects.

Under Garamendi funding, incremental indirect cost recovery generated by federal contracts and grants that was made possible as a result of the project is used to pay for operations and maintenance of the project and for debt service. The project is forecasted to pay for itself with net new federal indirect cost recovery. Although early year shortfalls are not anticipated, the Government Code allows these to be reimbursed in future years, recognizing that as research buildings are completed, faculty, and therefore research dollars, will be coming on line gradually. If shortfalls occur on a project-to-project basis, the campus' share of the University Opportunity Fund will provide the amounts required. If the shortfalls occur throughout the first three full years of occupancy, the campus may be reimbursed from additional overhead, above and beyond debt service and costs of operations and maintenance, that is generated as a result of the building in later years. To the extent that there are annual surpluses, they flow through the regular distribution process for indirect costs. For purposes of placing debt in the market, the University pledges the University Opportunity Fund as the repayment source for these projects.

In compliance with Regents' policy, all funds necessary to complete construction will be in hand prior to issuing the project for bid.

Upon motion duly made and seconded, the Committee 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 APPROVAL OF EXTERNAL FINANCING FOR HEALTH SCIENCES SEISMIC REPLACEMENT BUILDING 1, LOS ANGELES CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Los Angeles: Health Sciences Seismic Replacement Building 1 – preliminary plans, working drawings, construction and equipment – $66,947,000 total project cost to be funded from State funds ($23,768,000) and gift funds ($43,179,000).

To: Los Angeles: Health Sciences Seismic Replacement Building 1 – preliminary plans, working drawings, construction and equipment – $68,620,000 total project cost to be funded from State funds ($23,768,000), gift funds ($27,324,000), campus funds ($128,000), and external financing ($17,400,000).

B. The President be authorized to obtain long-term external financing not to exceed $17.4 million to finance a portion of the Health Sciences Seismic Replacement Building 1 construction, subject to the following conditions:

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

(2) Repayment of the total long-term financing amount shall be from the Los Angeles campus' share of the University Opportunity Fund.

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

C. 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.

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

It was recalled that the proposed project will construct 133,180 gsf of new space, providing 80,180 asf for medical research laboratories and support functions including vivarium space, faculty offices and instructional support, and building support space. It will also provide for the relocation of existing neuroscience research programs of the Los Angeles Campus School of Medicine and Neuropsychiatric Institute (NPI), currently located in three of the most seismically vulnerable areas of the Center for Health Sciences.

History of Approvals

In May 1997, The Regents was presented with an overview of the proposed UCLA Academic Health Center Facilities Reconstruction Plan to repair and replace major portions of the Center for Health Sciences and Santa Monica-UCLA Medical Center that were damaged by the 1994 Northridge earthquake. In October 1997, The Regents approved the Health Sciences Seismic Replacement Building 1 for inclusion in the State portion of the 1998-99 Budget for Capital Improvements and the 1998-2003 Capital Improvement Program, for a total project cost of $56,000,000. The budget was subsequently increased to $57,697,000. In May 1999, The Regents approved the design for the Health Sciences Seismic Replacement Building 1. In September 2000, The Regents approved standby financing in the amount of $32,444,000 for gift funding pledged but not yet received. It also approved a budget increase of $1,480,000, for a total budget of $59,177,000, to cover anticipated interest during construction and other interim financing costs.

Construction bids were received in June of 2001, and were significantly in excess of the pre-bid estimates. In order to award the contract to the lowest bidder, as well as cover the cost of other budgeted construction phase expenditures, an augmentation of $7,770,000 was approved administratively, increasing the total project budget to $66,947,000. The latest approved budget of $66,947,000 is to be funded from a combination of State funds ($23,768,000) and gift funds ($43,179,000).

Approval is sought for a budget augmentation in the amount of $1,673,000 to cover the increased cost of construction and long-term external financing to replace interim financing.

Need for Augmentation

The following factors have contributed to the need for the augmentation, which will increase the total project cost to $68,620,000:

Construction Costs ($2,511,000): Construction management costs have exceeded the original budget of $790,000, due to delays in construction completion. Telecommunication infrastructure costs were higher than budgeted ($323,000), due to changes that afforded the provision of current data equipment and cabling infrastructure. After specific researchers were identified, the laboratory and vivarium programs were reevaluated, and four additional chemical fume hoods and vacuum service outlets were installed to improve functionality ($200,000). A more extensive electronic security system was installed ($200,000). Unforeseen underground utility work required an additional sewer manhole and new vault for high pressure steam ($185,000). Structural changes including additional steel support in elevator shafts and the exterior skin ($511,000), as were additional modifications to the elevators ($202,000) and other routine design coordination changes ($356,000). Other miscellaneous items included State Fire Marshal requested changes ($141,000), increased temporary utilities costs ($123,000), increased builder's risk and OCIP insurance costs ($83,000), and additional campus construction costs ($100,000). These additional costs were partially offset by a reduction in Group I vivarium equipment costs (-$703,000).

Project Development ($2,198,000): Changes and schedule delays affecting the project architect's scope resulted in external fee increases, including an increase for construction administration ($886,000). Internal fees increased due to schedule delays and additional inspection requirements ($904,000). Construction management and architect reimbursables were higher due to additional project documentation and travel costs, and to schedule delays ($220,000). Testing and survey costs were higher due to changes in State laws that required the payment of prevailing wages to testing and inspection firms and underestimation of other necessary work ($241,000). These additional costs were partially offset by a reduction in miscellaneous other reimbursables and special items (-$53,000).

Loan Interest Decrease (-$400,000): Loan interest has been reduced to reflect the difference between planning and actual rates, as well the success of the fundraising campaign.

Group 2 & 3 Equipment Increase ($162,000): Initial identification of certain laboratory equipment as Group 1 was subsequently revised and reclassified as Group 2 & 3, increasing this cost category.

Contingency Decrease (-$2,798,000): The total project cost increase of $4,471,000 was partially offset by the reallocation of $2,798,000 of available project contingency.

Financial Feasibility

As of November 1, 2004, the gift campaign had resulted in collection of $27,324,000 of cash in hand. The campus had originally planned to support $43,179,000 of the project cost with gifts. After further consideration, the campus has determined that other elements of the UCLA gift campaign will be best served by available development resources. Accordingly, the campus plans to terminate the gift campaign for this project, and approval is sought to support the balance of gifts not yet collected ($15,855,000) with external financing. The campus also proposes to support $1,545,000 of the budget increase with external financing, for total external financing of $17,400,000 ($17,000,000 for project costs and $400,000 for interest during construction costs). If approved, the current outstanding balance in standby financing ($15,837,000) will be replaced with external financing. The remainder of the budget increase will be supported with campus funds ($128,000).

At an interest rate of 6.125 percent over 30 years, the average annual debt service on $17,400,000, estimated at $1,281,000, will be repaid from the Los Angeles campus' share of the Opportunity Fund. The campus is within the prescribed pledge and payment limits.

In FY 2006-07, the first full year of principal and interest payments, 45 percent of Opportunity Funds are pledged for debt service.

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

6. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR HOUSING PHASE 2, MERCED CAMPUS**

The President recommended that, subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

> Merced: Housing Phase 2 – preliminary plans – $990,000 to be funded from University of California Housing System (UCHS) Net Revenue Reserves.

It was recalled that the Merced campus proposes to design and construct approximately 68,800 asf that will provide 411 beds for lower division students. Significant cost efficiency will be achieved with the Housing, Phase 2 project, as it will be developed as a prototype with the intent of replicating the project design as additional freshmen housing is needed.

Merced Housing Phase 2 will help meet the housing goals established in UC Merced's Long Range Development Plan, which include provision of housing for 50 percent of its students and 75 percent of all freshmen. The campus will open in fall 2005, with 900 undergraduate students and 100 graduate students. The campus anticipates enrolling an additional 800 students per year thereafter, until it reaches its steady state. The first housing and dining project, Garden Suites and Lakeview Dining, will be completed in time for the campus opening.

Market analysis demonstrates that the Cities of Merced and Atwater cannot provide significant housing for UC Merced students. The vacancy rate for multiple-family housing in Merced remains very low. It is expected that most students who are relocating to the Merced area will be drawn to the newly developed on-campus housing, with its student-oriented amenities and residential life environment. Given limited existing or planned supplies of good-quality multifamily housing in the City of Merced and the University's systemwide trend in students desiring on-campus housing, the new student housing at UC Merced will provide an attractive option for incoming students. The Housing, Phase 2 project will help to meet the housing demand as projected for fall 2007.

Project Description

The Merced Housing Phase 2 project will provide approximately 94,400 gsf in units designed to accommodate freshmen and lower division students. The suite-style units will comprise a total of 411 beds, consisting of 400 revenue beds for students, and 11 non-revenue beds for occupancy by residential life students and staff. The housing will be designed as double occupancy bedrooms with shared bathrooms. The project will afford common space with study rooms and a small amount of office space for residential life and custodial staff. Surface parking for approximately one-half of the residents will be supplied. As with the Garden Suites project, students will participate in mandatory meal plans at the Dining Commons, currently under construction.

Programming will be designed to enrich and extend the students' educational experience. Student support services will include Resident Assistants, cultural and social programs, informational programs on campus safety and campus resources, and other activities.

Green Building Policy and Clean Energy Standard

This project will comply with the Policy for Green Building Design and Clean Energy Standards. Specific information regarding energy efficiency and sustainability will be provided when the project is presented for design approval.

CEQA Compliance

In accordance with the California Environmental Quality Act (CEQA) and University procedures for its implementation, an Environmental Impact Report for this campus Long Range Development Plan will be presented to The Regents for review and consideration at the time of project design approval.

Funding Plan

The estimated total project cost of between $17 million and $21 million will be funded from external financing, to be repaid from Merced's UCHS revenues.

Future Regental Action

At the conclusion of the preliminary design phase, the campus will return to The Regents to request the amendment of the Budget for Capital Improvements and the Capital Improvement Program for the total cost of all phases of the project.

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

7. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL FINANCING FOR SAN DIEGO SUPERCOMPUTER CENTER EXPANSION, SAN DIEGO CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: San Diego Supercomputer Center Expansion – preliminary plans, working drawings, construction, and equipment – $41,738,000 to be funded from external financing ($40,738,000) and campus funding ($1,000,000).

B. The President be authorized to obtain financing not to exceed $40,738,000 for the construction and the related costs, subject to the following conditions:

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

(2) Repayment of any financing shall be from the UC San Diego campus' share of Opportunity Funds.

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

C. 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.

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

It was recalled that the San Diego campus proposes to construct an addition of 50,265 asf to the San Diego Supercomputer Center (SDSC) at a total cost of $41,738,000. SDSC is the leading edge site for the National Partnership for Advanced Computational Infrastructure, which is comprised of 41 universities and research institutions as well as international affiliate partners.

Founded in 1985, SDSC is an organized research unit of the University of California, San Diego. With a staff of nearly 400 scientists, software developers, and support personnel, SDSC is an international leader in data management, biosciences, geosciences, grid computing, and visualization. SDSC is uniquely positioned to conduct research and development at a scale and with a level of integration and coordination that cannot be achieved within traditional academic departments and laboratory settings. During its existence, it has served more than 10,000 researchers from more than 350 institutions, and 50 industrial partners.

SDSC's relationship with the University of California plays an important role in developing programs that support UC's research and educational mission. One such program is the UC Academic Associates Program, where UC researchers are provided access to SDSC's state-of-the-art computational and storage resources. To obtain full benefit of these resources, training classes and workshops are made available to UC researchers. In addition, UC faculty use SDSC's hardware resources for classroom education under the program. Through the Strategic Applications Collaborations program, SDSC staff assist UC researchers in accelerating the researchers' efforts. Research programs that have resulted from the SDSC-UC liaison include the burgeoning fields of environmental informatics and bioinformatics. In addition to SDSC's systemwide involvement with UC, it is highly collaborative with UCSD divisions and departments. SDSC participates in joint projects and is a technology partner of the California Institute for Telecommunications and Information Technology (Cal-IT2), the Jacobs School of Engineering, and the divisions of Physical Sciences, Biological Sciences, and Social Sciences, among others.

The original five-story Supercomputer facility was built in 1985. In May of that year, The Regents authorized a ground lease and agreement with G.A. Technologies, Inc. (G.A.), which constructed and operated the building for a period of ten years. Upon expiration of that ground lease in 1995, The Regents assumed title of the building and entered into an operating agreement with G.A. that was terminated in September 1997. All other SDSC-G.A. agreements entered into after the termination of the operating agreement were related exclusively to programmatic matters. A final transition agreement terminated all formal ties between G.A. and the SDSC, effective December 31, 2002. No new relationships with G.A. are anticipated.

The University added an adjacent four-story office facility in 1996, thereby providing a combined square footage of approximately 47,000 asf. Ninety-nine of the 397 SDSC staff are occupying approximately 17,000 asf of additional space in seven other buildings, including trailers, due to the lack of space at SDSC. It is anticipated that SDSC's staff will grow by 70 percent by 2009, further exacerbating the situation.

The SDSC expansion will both resolve the need for additional space and enable consolidation of personnel. Upon completion of the expansion, SDSC will net approximately 33,000 asf, and the temporarily housed staff will be assigned permanent space at SDSC. The temporary space will be disposed of as follows: released to the Division of Social Sciences/9,000 asf; termination of leased space at La Jolla Professional Building/3,000 asf; removal of trailers from campus/2,000 asf; and termination of leased space at the Institute of the Americas/3,000 asf.

Project Description

The expansion will add 50,265 asf to the existing facility. While primarily composed of office space, the expansion will also enlarge the computer machine room in the original facility by 7,000 asf; create a new entry that will connect the 1985 and 1996 structures to the expansion; and add computer labs, meeting rooms, conference rooms, an auditorium, and support areas.

Considering the strong adjacency issues, only one expansion site is feasible. The site, which is east of the existing facility, is a surface parking lot primarily used by the SDSC users. Although approximately 120 parking spaces will be displaced by the expansion, the recently approved Hopkins Parking Structure, to be located south of the proposed expansion, will provide approximately 1,400 spaces to accommodate the general UCSD population, including the SDSC occupants and visitors.

Given the technological nature of work conducted at the SDSC, the operational demands for electrical power are considerable. This demand will escalate with the completion of the 7,000 asf computer machine room and the aforementioned projected growth and consolidation. To meet both SDSC's increasing demand for electrical power and the demands that will be generated by the continuing growth of the North Campus, the construction of a new 12 kV switching station has been incorporated into the project's scope of work. The building will be located on the West Campus, near the intersection of Voigt Drive and Justice Lane. The site's central location is optimal for purposes of accessing power lines from the main East Campus substation and distributing this power to SDSC and future projects.

Construction of the SDSC expansion is scheduled to begin in January 2006, with occupancy in October 2007.

Green Building Policy and Clean Energy Standard

The project will comply with the Policy for Green Building Design and Clean Energy Standards. Specific information regarding energy efficiency and sustainability will be provided when the project is presented for design approval.

CEQA Classification

In accordance with University of California guidelines for the implementation of the California Environmental Quality Act, environmental documentation has been prepared for consideration in conjunction with the project design review. This project was evaluated in the LRDP EIR, certified at the September 2004 Regents meeting.

Financial Feasibility

The total expansion project cost is $41,738,000, including capitalized interest of approximately $2,773,000 incurred during construction. Based on long-term debt of $40,738,000 amortized over 30 years at 6.125 percent interest, the estimated average annual debt service will be approximately $2,999,000. Repayment of the debt will be from campus Opportunity Funds. In fiscal year 2008-09, the first full year of principal and interest payments for the project, 65 percent of Opportunity Funds are pledged for debt service. Inclusive of this amount and other planned projects for external financing from Opportunity Funds, the campus is within the prescribed Opportunity Fund Pledge and payment limits.

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

8. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL FINANCING FOR UNIVERSITY CENTERS EXPANSION AND RENOVATION, SAN DIEGO CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: University Centers Expansion and Renovation – preliminary plans, working drawings, construction, and equipment – $79,122,000 to be funded from external financing ($67,394,000), bookstore reserves ($6,000,000), and gift funds ($5,728,000).

B. External financing be obtained not to exceed $46,224,000 for the construction and related costs, subject to the following conditions:

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

(2) Repayment of the debt shall be from the University Centers Expansion and Renovation student fees approved by student vote in May 2003 and by the President on June 19, 2003; and net revenues of the University Centers, which shall generate net revenues sufficient to pay debt service and to meet all related financing requirements of the proposed funding.

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

C. External financing be obtained not to exceed $14,766,000 for the construction and related costs, subject to the following conditions:

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

(2) Repayment of the debt shall be net revenues of the UCSD Bookstore, which shall generate net revenues sufficient to pay debt service and to meet all related financing requirements of the proposed funding.

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

D. External financing be obtained not to exceed $1,724,000 for the construction and related costs, subject to the following conditions:

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

(2) Repayment of the debt shall be Registration Fees.

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

E. External financing be obtained not to exceed $4,680,000 for the construction and related costs, subject to the following conditions:

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

(2) Repayment of the debt shall be from revenues relating to the groundlease of the Blackhorse Farms property.

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

F. 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.

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

It was recalled that the San Diego campus proposes to expand and redevelop the University Centers, comprised of the Price Center and Original Student Center. As the result of a successful student-initiated referendum in May 2003 supporting a new student fee, this project will provide approximately 68,500 asf of new space and will renovate approximately 20,650 asf of existing space to expand food services, meeting and event facilities, lounges and study areas, space for student organizations, and administrative space at the University Centers. In addition, approximately 42,500 asf of new space will be constructed for the Alumni and Visitor Center, bookstore expansion, Cross-Cultural Center, and Student Life. Approximately 39,000 asf of existing bookstore space also will be renovated.

The Original Student Center (18,652 asf) was built in 1972 and expanded in 1976. As the first student union, the Original Student Center is an important destination for the campus community, providing a serene environment for the occupants and users of the facilities. The current Price Center facility (122,871 asf) was completed in 1989, and is part of the growing University Center neighborhood.

When the Price Center was completed, the campus had an undergraduate enrollment of 13,222 FTE. Since then, enrollment has increased by approximately 47 percent, to a total of 19,500 FTE in 2003-04. Undergraduate enrollments are expected to grow to 20,660 FTE by 2009-10. The number of graduate students, faculty, staff, and campus visitors also is increasing, further constraining the University Centers' ability to serve the campus and resulting in a number of facility-related deficiencies.

The impetus for this project was provided by the Associated Students UCSD Ad Hoc Task Force on University Centers Expansion Efforts, which convened in winter 2002 to evaluate student interest and funding options for expansion of the University Centers. Following a survey to assess the students' desires for expanded facilities and services, the task force proposed a student fee referendum, which was supported by both the Associated Students and the Graduate Students Association. The referendum included specific program elements in the new facilities, as described below in the Project Description section. The referendum stated that the fee would be collected in fall 2007 when the facilities were available to the students. The fee was proposed as an addition to the existing University Centers fee, to cover costs associated with constructing, operating, and maintaining the facilities.

A special election was held May 12-16, 2003, prior to which the students organized an open debate at the Price Center to discuss the pros and cons of the proposed new fee. One important consideration by the students was the concurrent discussion by The Regents concerning increased student education fees for fall 2003. Students also wanted appropriate student responsibility over the use of the referendum funds and the related program decisions. On both sides of the debate, students considered seriously how their votes would affect students not yet matriculated; a "yes" vote would assess the fee on future students, but a "no" vote would risk further crowding and lack of available services for the same students.

Approximately 30 percent of the student body, including graduate and medical students, voted in the special election, which was held via the internet. The referendum passed, with 54 percent of the voters endorsing a new $39 per quarter fee that would fund the planning, design, construction, operation, and maintenance of additional and improved facilities at the Price Center and the Original Student Center. The fee will increase the quarterly fee from $37.50 to $76.50 per student. Under the authority delegated by The Regents, President Atkinson approved the fee increase on June 19, 2003.

After the student vote and Presidential approval, in June 2003 a Building Advisory Committee (BAC), two-thirds of which was students, was appointed by the Chancellor. The architects, who were selected by members of the BAC, worked with the students during programming to ensure that the project met the requirements of the approved referendum. In addition, several town hall forums were held to provide information and gain feedback from other members of the student body and campus community.

The referendum provided for student-fee-funded expansion of the Price Center of 60,000 gsf to 85,000 gsf, and for expansion of the Student Center of 10,000 gsf to 15,000 gsf. In total, the student-fee-funded portion of the project is planned to provide 16,000 to 36,000 more gsf than was anticipated with the referendum. Students have participated in the programming that followed the passage of the referendum and have been principal participants in determining both the amount and type of space to be delivered with the project.

Project Description

Price Center ($72,174,000): This project will construct approximately 105,000 asf to accommodate expanded, enhanced, and new services at the Price Center. In addition, the project will reorganize space within the existing building, requiring renovation of approximately 53,200 asf to adapt current spaces and integrate the old and the new.

The student-fee-funded program comprises approximately 62,500 of new asf, of which 52,000 asf will include student activity space. Approximately 8,000 asf to accommodate food service enterprises will be added, and approximately 2,500 asf will be for retail. Renovated space of approximately 14,100 asf will include space for food service, retail services, student organizations, social and meeting space, and administration.

The UCSD Bookstore will expand by approximately 22,400 asf to increase retail space for textbooks and other books, general merchandise, and bookstore administration and support. In addition, approximately 39,100 asf of the existing bookstore will be renovated. The convenience store will be replaced by a small grocery store. The new bookstore space will be constructed to the south of the existing facilities, affording better visibility and additional entrances. These new entrances also will provide easier access to the Price Center as a whole.

The Cross-Cultural Center is dedicated to supporting the needs of UCSD's diverse student, staff, and faculty communities. It is located in a 1940s wood building that is planned for demolition as part of the proposed State-funded Structural and Materials Engineering Building. Approximately 7,000 asf will be constructed as part of the Price Center expansion. The new space will include lounge and library areas, meeting and event facilities, and office and administrative space for the resource center.

The campus lacks an alumni center and a visitors center. A UCSD Alumni and Visitors Center within the Price Center will facilitate the interaction of alumni with students and the University community. It will provide alumni with a focal point to return to UCSD as ambassadors, advocates, and supporters, and it will be a welcoming center for donors, the community, and prospective faculty, staff, students, and parents. Space for the Alumni and Visitors Center will be approximately 9,200 asf. Locating the Alumni and Visitor Center in the expanded Price Center facilities will increase the availability of usable space for meetings, reunions, and alumni gatherings.

In addition, new space of 3,900 asf will provide a one-stop center for the Student Life division, which will include offices and administrative support for the Student Leadership Engagement and Service Center, Student Organizations and Leadership Opportunities, and Student Programs Business Office. These spaces will be incorporated with some of the student-funded building administrative offices in order to provide better service to the students, as well as a single location where students can have access to support services needed to plan and implement events and activities. Complementary outdoor spaces will be developed to accommodate a variety of activities.

The site for the new construction at the Price Center is to the east and south of the existing facility. The project will include realignment of Lyman Lane, to the south of the facility, relocation of the existing loading and service dock, and demolition of 9,640 asf of vintage World War II structures, the occupants of which will be relocated as part of other projects.

Original Student Center ($6,948,000): The project will construct approximately 6,080 asf and renovate 6,500 asf at the Original Student Center. As part of the student-fee-funded program, the Original Student Center component will provide additional meeting and student organization space, an expanded general store, and additional indoor and outdoor dining areas. As with the Price Center component, complementary outdoor spaces will be developed to accommodate a variety of activities and improve pedestrian circulation within and through the Original Student Center. Two older structures will be demolished to provide the site for the new construction.

Construction at the Price Center is projected to begin in winter 2006; completion of the expansion is expected in fall 2007, and the remaining renovation work by summer 2008. Construction at the Original Student Center also is projected to begin in winter 2006, with completion in spring 2007. To date, the project schedule is in line with the estimated time frame as stated in the referendum.

The project will comply with the Policy for Green Building Design and Clean Energy Standards. Specific information regarding energy efficiency and sustainability will be provided when the project is presented for design approval.

Environmental Consideration

In accordance with the University of California guidelines for the implementation of the California Environmental Quality Act of 1970, an environmental impact analysis 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 $79,122,000, including interest during construction. Assuming 6.125 percent interest for 30 years, the average annual debt service on the external financing will be $4,962,000. The debt service on the remainder will be paid from student fees and University Center revenues. Although it is expected that the new student fee will be assessed in fall 2007, the financial analysis is based on the first full year of principal and interest payments on the new debt. Implementation of the new fee results in a projected annual revenue of approximately $6,512,000 in 2009-10.

Projected revenues are sufficient to cover all existing and new debt obligations, maintenance, and operations expenses. After the University Centers' annual existing and proposed debt service is paid, approximately $2,522,000 of the student fee revenue in 2009-10 will be available for the annual operating and maintenance expenses of the facilities, which are estimated to be $4,855,000. University Centers revenues, which include retail and food service enterprises, will fund the remainder. University Centers revenues, excluding the student fees, are expected to increase to $3,361,000 in 2009-10. In the first full year of principal and interest payments on the new debt, revenue exceeds debt by 1.26x coverage for the $46,224,000 of external financing to be repaid from student fees.

The bookstore will fund its share of the project costs with external financing of $14,766,000 and $6,000,000 of reserves. The debt service will be repaid from bookstore revenue, at an annual debt service of $1,087,000 at 6.125 percent for 30 years. The bookstore has an existing annual debt service of approximately $398,000, which will increase to $1,485,000 with the new debt. In the first full year of principal and interest payments on the new debt, revenue exceeds debt coverage by 1.41x coverage for all of the external financing to be repaid from bookstore revenue.

Student Affairs will fund its share of the project costs for the Student Life one-stop center with external financing of $1,721,000. Registration fees are pledged for repayment of this debt, which will result in an annual debt service of $127,000. In the first full year of principal and interest payments on the new debt, the debt service is 4.01x.

The project costs associated with the Cross-Cultural Center ($4,680,000) will be externally financed. As the source of repayment of this debt, the campus will pledge the income derived from prepaid groundlease revenues on the Blackhorse Farms property. Estimated annual debt service will be $345,000 at 6.125 percent for 30 years. In the first full year of principal and interest payments on the new debt, related income from the pre-paid groundlease revenues from the Blackhorse Farms property will provide debt coverage of 1.26x.

Fundraising efforts are under way to raise gifts for the Alumni and Visitors Center. The project costs associated with this component of the project total $5,728,000. As gift funds will be collected over time, and in compliance with Regents' policy that all funds necessary to complete construction are to be in hand at bid, campus funds have been committed to cover pledges up to $5,728,000.

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

9. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL FINANCING FOR EAST CAMPUS GRADUATE HOUSING, SAN DIEGO CAMPUS**

The President recommended that:

A. Subject to the concurrence of the Committee on Grounds and Buildings, the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego Campus: East Campus Graduate Housing Project – preliminary plans, working drawings, construction, and equipment – $78,000,000 to be funded from external financing ($77,300,000) and the San Diego campus' share of the University of California Housing System Net Revenue Fund ($700,000).

B. Financing be obtained not to exceed $77,300,000 for the East Campus Graduate Housing Project, subject to the following conditions:

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

(2) As long as the debt is outstanding, University of California Housing System fees for the San Diego campus shall be established at levels sufficient to pay the debt service and to meet the related requirements of the proposed financing.

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

C. 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.

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

It was recalled that single graduate and medical students on the San Diego campus are housed in the Mesa Residential Apartments, Warren College Graduate Apartments, Coast Apartments, and La Jolla Del Sol Apartments, which provide 1,579 beds. Demand for student housing cannot be met without an increase in beds. In fall 2004, only about 286 of the 1,687 graduate students who submitted applications for housing could be accommodated, leaving a waiting list of 1,401. It is the goal of the San Diego campus to house 50 percent of eligible undergraduate and graduate students in campus-owned facilities. As graduate enrollment growth at the San Diego campus is expected to continue, it is clear that demand for housing will continue to exceed the available campus housing stock for some time. When the project is completed, existing units assigned to single graduate and medical students will not be released to other students. There are no other graduate housing projects planned for at least the next eight years.

Strongly affecting the demand for on-campus housing is the shortage of reasonably priced rentals in UCSD's surrounding community. UCSD is located in La Jolla, an area where housing costs are high relative to what students can afford. The apartment vacancy rate in the UCSD area is currently 2.6 percent. UCSD's graduate student housing rates average $792 per unit ($396 per student) per month, which is well below the market rate.

Project Description

The East Campus Graduate Housing Project will be located west of the Mesa Residential Apartments and east of Interstate 5 near the main campus. The Mesa Apartments provide housing for 1,359 adult residents, including graduate, medical, and undergraduate students and their families, in multiple two-story, wood-frame buildings that were constructed using design-build methodology. The new project will also be designed and constructed using the design-build methodology in order to bring the best available design and construction experience and expertise together. The apartment units will be standardized, which will lend them to design-build.

The project will house approximately 800 students and six housing staff in 400 two-bedroom, one-bathroom apartments and will provide approximately 800 parking spaces for the residents. The project, occupying approximately eight acres, is expected to consist of low-rise and possibly some mid-rise structures. In addition to the residential units, the development will include common spaces. Each building will be wood-frame or steel-frame with stucco and masonry.

The proposed apartment units will total 283,000 asf. A typical two-person unit will have two single-occupancy bedrooms with a living-dining-kitchen area, a shared bathroom, and a storage area. Each apartment will be approximately 700 square feet. There will be 9,000 asf of residential community support spaces and administrative offices.

The campus is reviewing various schemes to accommodate 800 parking spaces in the complex. The 1,300 existing surface parking spaces in the Mesa Housing complex were built as part of the housing facilities and are fully used by the current residents. There are no alternative parking options available, and due to the nature of the single graduate or medical student customer base, the primary amenity valued by these students is parking. The parking will be in one or two structures and may be partially embedded in the terrain. The campus will work with the project consultants to determine how mechanical ventilation can be minimized or even eliminated.

The project received support from the Graduate Student Association with regard to the cost increase to be assessed upon completion. The campus also surveyed graduate students to determine priorities for certain amenities and identify overall project concepts.

The project will comply with the Policy for Green Building Design and Clean Energy Standards. Specific information regarding energy efficiency and sustainability will be provided when the project is presented for design approval.

Construction of the East Campus Graduate Housing is scheduled to begin in December 2005, with occupancy in June 2007.

CEQA Classification

In accordance with the University guidelines, environmental documentation will be prepared for consideration in conjunction with the project design review at a future meeting.

Financial Feasibility

The cost of $78,000,000 will be funded from external financing ($77,300,000) and the San Diego campus' share of the University of California Housing System (UCHS) Net Revenue Fund ($700,000). Assuming 30-year financing of $77,300,000 at 6.125 percent interest, the average annual debt service for the project will be $5,691,000, to be paid from the San Diego campus' share of the UCHS annual net revenues.

The costs of the project will be completely assigned to the new facilities and existing facilities designated for graduate or medical students. No costs related to the project will be assumed by existing single undergraduate housing or faculty-staff housing.

Campus projections include a 4.4 percent average annual housing rate increase over a five-year period to cover increases in operating expenses, future debt, and other facilities needs specifically related to this project. The campus will continue with its standard 3 percent rent increase per year until the project's first full year of operation. At such time, an additional 3.5 percent will be added to the annual increase, for a total effective rate of 6.5 percent, beginning in 2007-08 and continuing each year through 2009-10. In 2010-11, the annual rate increase is projected to return to 3 percent. Existing graduate student housing rental rates averaging $792 per unit (or $396 per student) per month in 2004-05 will increase to an average rate of $873 per unit (or $436.50 per student) per month in fiscal year 2008-09, the first full year of principal and interest repayment. The rental rate for the new apartments in this project will be $1,060 per unit ($530 per student) per month in 2008-09. Even with these increases, the rental rates will be well below the current market rate for an off-campus, two-bedroom unit in University City.

Operational costs are projected at $2,938,000 annually, plus a one time start-up cost of $215,000 in 2007-08 associated with opening and filling the 400 new units that includes preparation of new contracts, move-in materials, and temporary staff to assist with contracts and move-in. The financial feasibility analysis does not include projections for non-student rental income.

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

10. **AUTHORIZATION OF LEASES AND AGREEMENTS FOR GENOMICS BUILDING, RIVERSIDE CAMPUS**

The President recommended that, subject to adoption by the State Public Works Board of a resolution authorizing the issuance of State Public Works Board Lease Revenue Bonds and authorizing interim loans from the State's Pooled Money Investment Account or General Fund for the Genomics Building at the Riverside campus, the President or the Secretary be authorized to:

A. Execute an unsubordinated site lease from The Regents to the State Public Works Board (SPWB) for the project named above, said lease to contain provisions substantially as follows:

(1) The site shall comprise the approximate size of the footprint for the building named above. Said lease shall also include a license to the SPWB for access from campus roads to the site during the term of the lease.

(2) The purpose of the lease shall be to permit construction of the project.

(3) The term of the site lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds, and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full.

(4) The rental shall be $1 per year.

(5) The Regents shall have power to terminate the site lease in the event of default by the SPWB, except when such termination would affect or impair any assignment by the SPWB and such assignee is duly performing the terms and conditions of the lease.

(6) The Regents shall provide to the SPWB and any assignee of the SPWB access to the site and such parking and utility services as are provided for similar facilities on the campus.

(7) The Regents shall waive personal or individual liability of any member, officer, agent, or employee of the SPWB.

(8) The Regents shall agree to pay assessments or taxes, if any, levied on the site or improvements attributable to periods of occupancy by The Regents.

(9) In the event any part of the site or improvements is taken by eminent domain, The Regents recognizes the right of the SPWB to retain condemnation proceeds sufficient to pay any outstanding indebtedness incurred for the construction of the project.

B. Execute an agreement between the State of California, as represented by the SPWB, and The Regents for the project named above, said agreement to contain the following provisions:

(1) The SPWB agrees to finance construction of the project, as authorized by statute.

(2) The Regents agrees to provide and perform all activities required to design and construct said project.

C. Execute a facility lease from the SPWB to The Regents for the project named above, said lease to contain provisions substantially as follows:

(1) The purpose of the building's occupancy shall be to use it as a facility for instruction and research and support-related functions in furtherance of the University's mission related to instruction, research, and public service.

(2) The SPWB shall lease the financed facility, including the site, to The Regents pursuant to a facility lease.

(3) The terms of the facility lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full.

(4) If the SPWB cannot deliver possession to The Regents at the time contemplated in the lease, the lease shall not be void nor shall the SPWB be liable for damages, but the rental payment shall be abated

proportionately to the construction cost of the parts of the facility not yet delivered.

(5) In consideration for occupancy during the term of the lease and after the date upon which The Regents takes possession of the facility, The Regents shall pay base rent in an annual amount sufficient to pay debt service on the bonds or other obligations of the SPWB issued to finance or refinance the facility and additional rent for payment of all administrative costs of the SPWB.

(6) The Regents covenants to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations.

(7) During occupancy, The Regents shall maintain the facility and pay for all utility costs and shall maintain fire and extended coverage insurance at then current replacement cost, or an equivalent program of self insurance, and earthquake insurance if available on the open market at a reasonable cost.

(8) During occupancy, The Regents shall maintain public liability and property damage insurance, or an equivalent program of self insurance, on the facility and shall maintain rental interruption or use and occupancy insurance, or an equivalent program of self insurance, against perils covered in (3)g. above.

(9) In the event of default by The Regents, the SPWB may maintain the lease whether or not The Regents abandons the facility and shall have the right to relet the facility, or the SPWB may terminate the lease and recover any damages available at law.

(10) The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if The Regents files any petition or institute any proceedings for bankruptcy, or if The Regents abandons the facility.

(11) The Regents shall cure any mechanics' or materialmen or other liens against the facility and, to the extent permitted by law, shall indemnify the SPWB in that respect.

(12) The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the facility.

(13) Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the facility shall vest in The Regents.

D. Execute an equipment acquisition agreement between the State of California, as represented by the SPWB, and The Regents for the project named above, said agreement to contain the provision that the SPWB agrees to finance equipping of the named project as authorized by statute.

E. Execute an equipment lease from the SPWB to The Regents for the project named above, said lease to contain provisions substantially as follows:

(1) The equipment shall be used for the purpose of equipping the project.

(2) The SPWB shall lease the equipment to The Regents pursuant to an equipment lease.

(3) The term of the equipment lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution was adopted authorizing the lease, the issuance of bonds, and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full.

(4) During the term of the lease and after the date upon which The Regents takes possession of the equipment, The Regents shall pay base rent in an annual amount sufficient to pay debt service on the Bonds or other obligations of the SPWB issued to finance or refinance the equipment and additional rent for payment of all administrative costs of the SPWB.

(5) The Regents covenants to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations.

(6) During use, The Regents shall maintain the equipment and shall maintain fire and extended coverage insurance, or an equivalent program of self insurance, at then current replacement cost.

(7) During use, The Regents shall maintain rental interruption insurance, covering loss of use, public liability insurance, and property damage insurance, or an equivalent program of self insurance, on the equipment.

(8) In the event of default by The Regents, the SPWB may maintain the lease and shall have the right to resell the equipment, or the SPWB may terminate the lease and cover any damages available at law.

(9) The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if The Regents files any petition or institute any proceedings for bankruptcy, or if The Regents abandons the equipment.

(10) The Regents shall cure any liens against the equipment and, to the extent permitted by law, shall indemnify the SPWB in that respect.

(11) The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the equipment.

(12) Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the equipment shall vest in The Regents.

It was recalled that the actions recommended are similar to previous actions approved by The Regents for projects financed through the State Public Works Board Lease Revenue Bonds. Under the facility lease and equipment lease, The Regents agrees to pay rent to the SPWB in an amount necessary to repay principal and interest on the obligations of the SPWB issued permanently to finance the construction of, and as appropriate the equipment for, the facility. It is expected that the Legislature will appropriate funds each year for the rents due under each lease as a separate item in the State Budget Act. While the Legislature and Governor, by approving the State Budget Act, have indicated their recognition of the need for continuing budgetary support, there can be no absolute assurance of this support through the life of the bonds. If the State fails to appropriate sufficient funds to make the rental payments, The Regents is obligated to pay rent from any lawfully available funds. When the obligations are retired, the leases will terminate, and The Regents will obtain clear title to the improvements and equipment.

The University purchased agricultural land in Riverside's Moreno Valley in 1961 for support of the Riverside campus' agricultural instruction and research programs. The purchase was funded with $650,000 in State funds and $148,000 in University funds. For the past 40 years, the agricultural field has been an important component in campus research; however, a significant need exists for laboratory-based research to address issues such as agricultural dependence on pesticides, improving plant drought resistance and salt tolerance, increasing farm income through development of innovative value-added products, and combating mosquitoes and other vectors that spread disease. The revolution in knowledge of genomics through its use of new laboratory technologies offers enormous potential for benefit to agriculture, the environment, and human health. The Riverside campus concluded that the laboratory capability provided by the Genomics Building project is of greater value to the state and the campus than maintaining the Moreno Valley agricultural field. Accordingly, The Regents sold the Moreno Valley property, with the intent of using the proceeds of the sale to construct a new laboratory facility more effectively to support the evolving research needs of the campus agricultural program; however, recognizing the fiscal situation facing the State, the University proposed to transfer the full proceeds of the land sale net after transaction costs were paid to the State in return for a comparable State capital appropriation for the Genomics Building, to be financed through lease revenue bonds. The 2004 State Budget Act authorized an amount up to $55 million in Lease Revenue Bonds for design and construction of the Genomics Building project at the Riverside campus. The net proceeds of the sale resulted in a $53.8 million transfer to the State in 2004, and this is the maximum in Lease Revenue Bond funding that will be provided for the project.

This project will construct a 63,986 asf Genomics Building consisting of multi-disciplinary research laboratories, laboratory support space, and office space to address the needs of Integrative Genome Biology. The exact amount of the annual rent will be based on interest rates and the maturity date of the financial instruments as established by the State Treasurer; however, assuming that the total amount to be financed for design and construction is $44,580,000 and assuming the interest at 6.125 percent, it is estimated that the annual rent would be $3,282,000 during the period of indebtedness if 30-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses. Assuming that the total amount to be financed for equipment is $9,220,000 and assuming the interest at 5.25 percent, it is estimated that the annual rent would be $1,260,000 during the period of indebtedness if 10-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses.

The forms for the site, facility, and equipment leases, and the construction and equipment agreements will be reviewed and approved as to form by the General Counsel and coordinated with the SPWB's counsel.

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

11. **AUTHORIZATION TO JOIN THE CONAWAY RANCH JOINT POWERS AUTHORITY FOR THE PLANNING, USE, AND CONTROL OF THE CONAWAY RANCH, YOLO COUNTY, DAVIS CAMPUS**

The President recommended that:

A. The President, after consultation with the General Counsel, be authorized to approve and execute all documents necessary for the University to become a full voting member of the Conaway Ranch Joint Powers Authority (Authority) including, without limitation, a Joint Exercise of Powers Agreement, such Agreement to include the following provisions:

(1) The purpose of the Authority would be to undertake acquisition, ownership, planning, management, improvement, and operation of the Conaway Ranch (17,300 acres in Yolo County), and for other services including, but not necessarily limited to, legislative and regulatory advocacy, solicitation of grant funding and implementation of grant-funded projects, and incurring of obligations.

(2) The initial objective of the Authority would be to consider the acquisition of the Conaway Ranch to maintain the status quo with respect to the existing uses and resources of the property for public benefit and, following any such acquisition, to establish an inclusive and comprehensive process, subject to the applicable requirements of the California Environmental Quality Act, to develop and implement a long-term plan for the use, management, improvement, and operation of the property for multiple public purposes and benefits.

(3) The Agreement forming the Authority would remain in effect until the earlier of the withdrawal of all Members or termination by the then remaining Members.

(4) The Authority would be authorized to do all acts necessary for the exercise of its powers, including, but not limited to:

a. Executing contracts;

b. Employing agents, consultants and employees;

c. Acquiring, constructing, or providing for maintenance and operation of any building, work, or improvement;

d. Acquiring, holding or disposing of real or personal property wherever located, including property subject to mortgage, by agreement, eminent domain, or other lawful means;

e. Incurring debts, liabilities, or obligations;

f. Receiving gifts, contributions and donations of property, funds, services, and any other forms of assistance from persons, firms, corporations, or governmental entities;

g. Suing and being sued in its own name, and litigating or settling any suits or claims;

h. Exercising any or all powers authorized under the California Joint Powers Authority Act (Act) or other applicable law; and

i. Doing any and all things necessary or convenient to the exercise of its specific powers and to accomplishing its purpose.

(5) The Authority was formed pursuant to the Act and, if joined by the University representatives as proposed, would be governed by a 17-person board composed of representatives from the County of Yolo, the Cities of Winters, Davis, Woodland, and West Sacramento, the Yolo County Flood Control and Water Conservation District, and the University of California (Authority Board).

(6) Any Member would be authorized to withdraw from the Agreement upon written notice to the Authority Board provided, however, that no such withdrawal shall result in the dissolution of the Authority as long as any obligations of the Authority remain outstanding

B. The President be authorized to delegate to the Chancellor of the Davis campus authority to appoint the University of California, Davis representatives to the Authority Board and to provide funds to support Authority operations.

C. The President be authorized to approve and to execute any additional documents reasonably required for the above described purposes and such amendments thereto as conform to such purposes.

The Committee was informed that the University of California has a unique opportunity to participate with other public agencies in the future use and control of the Conaway Ranch, a large property located in Yolo County near the Davis campus (Property). Several public agencies, including the County of Yolo; the Cities of Davis, West Sacramento, Woodland, and Winters; and the Yolo County Flood Control and Water Conservation District have formed a Joint Powers Authority (Authority) in order to manage for public benefit this major regional resource. The Davis campus, on behalf of the University, participates as a non-voting member of the Authority Board but has the opportunity to become a full voting member. The County of Yolo recently started an eminent domain proceeding to acquire the Property. In the future, the Authority may have the opportunity to acquire the property from the County.

The Conaway Ranch is approximately 17,300 acres of agricultural land located in an unincorporated area of Yolo County. It is generally bounded by Interstate 80 to the south, the City of Davis to the southwest, the City of Woodland to the northeast, Interstate 5 to the north, and the Sacramento River to the east, although it does not adjoin the river. The Property is currently used almost exclusively for agriculture and natural gas production. The Property includes farming support structures, including residences and office space, as well as oil and gas well operations. It has one of the largest gas fields in the county. The Property is owned by The Conaway Ranch Company, a subsidiary of National Energy and Gas Transmission, Inc. (NEGT), which is owned by PG&E Corporation. NEGT is in bankruptcy and intends to raise funds by selling its assets, including Conaway Ranch.
Acquisition of the Property is a once-in-a-generation opportunity for Yolo County public agencies to secure a significant regional asset and preserve the property in its current state. The significant public interests that would be protected include: (1) water rights for Yolo County communities; (2) agricultural resources; (3) public health and safety; (4) local and regional flood control alternatives; (5) open space and rural recreation; and (6) management of natural resources for environmental purposes. The Davis campus shares and supports all of these interests. Protection and effective local management of the water resources on the Property is vital to the support and advancement of the teaching, research, and public service missions of the Davis campus.

The primary source of water for UC Davis and other communities within Yolo County is groundwater from interconnected aquifers. Because there is limited surface water available to meet campus and community needs, it is critical that the campus participate in this effort to retain local surface water and groundwater resources for local uses. The Property has significant water rights entitlements, including approximately 51,000 acre-feet of water per year from the Sacramento River and 10,000 acre-feet of water per year from Cache Creek, as well as 21 deep groundwater wells. The water rights also make the Property attractive for acquisition by developers and water districts outside the region.

At the request of Yolo County, the Authority will begin preparing a financing plan for acquisition of the Property and interim and long-term management plans for the Property. If the County is successful in acquiring the Property, the short-term management plan would maintain the current uses of the Property. Eventual transfer of the Property from Yolo County to the Authority is contemplated but not decided. Preparation of a comprehensive long-term plan for the use, management, improvement, and operation of the Property for public benefit would include an extensive public process and appropriate environmental review consistent with the California Environmental Quality Act (CEQA). Preliminary objectives of such a comprehensive plan include to: (1) protect farming operations, (2) secure long-term regional surface water supply, (3) create opportunities for wastewater reuse, (4) enhance wetlands habitat and flood control, and (5) practice sustainable development of all available property resources.

The recommendation would enable the University to participate as a full member of the Authority, in the preparation of the plans, as well as other actions of the Authority including possible future acquisition. The Davis campus seeks to participate in the Authority to assure that its financial, legal, and other interests are protected in the development of the long-term use plan for the Property. The Davis campus expects to share, on a pro rata basis with the other member agencies of the Authority, operating costs associated with staffing the administrative elements of the Authority's efforts. Davis campus costs are not anticipated to exceed $200,000 per year. These costs will be paid from Chancellor's Discretionary Funds. If the Property is acquired by the Authority, acquisition, operation, and maintenance of the Property will be funded by existing operating income from the property and possible short-term water sales, and funding from other potential sources that include grants from Proposition 50 funds, environmental foundations and conservancies, agriculture industry commissions, State and federal agencies, and private developers. In particular, Proposition 50 funds are well suited to this endeavor because, among other things, they are intended to support water security and enhancement projects, the creation and enhancement of wetlands, acquisition and protection of open space and watershed lands, and flood control programs. If adequate funds are not obtained from these external sources, Authority members may contribute funding for acquisition and operation but would not be required to do so. The University will not fund Property purchase costs or operating expenses without first seeking Regental or appropriate delegated approval for such action.

The agreement forming the Authority provides for the Authority to exercise the powers common to all the Authority members and for the exercise of additional powers granted to the Authority by the California Joint Exercise of Powers Act. The Authority will be empowered to take all actions necessary for the exercise of its powers, including, but not limited to, executing contracts; establishing or participating in related entities; employing persons; acquiring or developing any building, work or improvement; acquiring and disposing of real or personal property by agreement or eminent domain; incurring debts, liabilities, or obligations; receiving gifts, contributions, and other forms of assistance from persons or entities; and suing or being sued in its own name and litigating or settling any suits or claims.

Obligations of the Authority, including issuing bonds, financing agreements, and other legal obligations of the Authority, will not be debts or liabilities of the members of the Authority. Such obligations will be payable solely from monies pledged to the repayment of the obligations under the terms of the agreement or instrument applicable to the obligations. The agreement provides that neither the faith and credit nor the taxing power of the Authority or any members of the Authority shall be pledged to the payment of such obligations.

Environmental Review

The University's becoming a voting member of the existing Authority Board will result in no physical changes to the environment, and the Authority currently neither owns property nor has any plans to change land use on any property it would acquire; therefore, the proposed action does not require review under the California Environmental Quality Act. If in the future the Authority proposes projects or land use plans that require environmental review, the Authority will be the lead agency and responsible for fulfilling the requirements of CEQA.

Senior Vice President Mullinix emphasized that it is likely that Yolo County will get control of the property. The Authority has been working with the County in an attempt to secure the long-term management of the property consistent with the needs of the surrounding communities and the University, which is dependent upon some of the resources of the property for its long-term development needs, particularly in the west campus area. The only exposure that the University would have by joining the Authority would be that it would pay part of the administrative cost of the group, which is estimated to be not greater than $200,000 per year. If there were greater exposure because of an interest in acquiring land or anything else, approval would be sought from The Regents. The University would have the right to withdraw from the Authority at any time.

Regent Connerly commented that the subject of the Conaway Ranch is very controversial in Yolo County. He asked whether the $200,000 funding request was a one-time request. Senior Vice President Mullinix responded that it could be ongoing. It is likely the project will last two or three years. The University is not contemplating putting any money into the physical acquisition of the property. The arrangement with the other partners is pro rata; there are seven partners who will each pay $200,000 to develop the long-term plan. That does not include any acquisition costs for the land. Regent Connerly asked why the County could not do the planning alone. Mr. Mullinix responded that Yolo County could condemn the land by itself; however, the other partners have a strong interest in working with the County to ensure that their interests are preserved. Looking beyond the initial phase, Regent Connerly noted that the property may cost $50 million or more. Mr. Mullinix explained that there are resources on the property that could produce funds sufficient to satisfy any acquisition cost in the longer term. It is possible the $50 million could come from bond funds. If the bond money is not available, other alternatives would be sought. There may be other opportunities to raise funds from the property's resources. Regent Connerly believed that all possibilities for negotiating acquisition of the property rather than using eminent domain should be exhausted. Mr. Mullinix reported that no ultimate decision to use eminent domain has been made, but were that route taken, it would be taken by Yolo County and not the Authority. Chancellor Vanderhoef added that the County has been taking the lead on this issue. The other partners have joined in because they have great interest in what happens with the property, particularly the water rights. All water in the area comes from aquifers, which are interconnected. The University hopes to be part of the decision-making process concerning the use of this water. Regent Connerly asked about the structure of the Authority. Chancellor Vanderhoef reported that the University would have two members of the total of 17.

Regent Connerly continued to express concern about the possibility of using eminent domain. Mr. Mullinix believed that the County has already started eminent domain proceedings. He emphasized that the Authority is not a party to that action.

Regent-designate Rominger, a resident of Yolo County, reported that he had spoken to members of the Board of Supervisors about this project. He supported the University's involvement. The County did attempt to negotiate with the owners of the property and were rebuffed. He believed that the County was informed that it was not eligible to participate in any eventual bidding process for the land. If the County does acquire the ranch, it will be the Authority that will manage it.

Regent Connerly remained concerned about the University's participation in the use of eminent domain absent a compelling reason. He suggested making the University's participation contingent upon the County's acquiring the ranch through eminent domain. Mr. Mullinix believed the University would benefit from being part of any financial planning for how the property would be managed in the longer term.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Dynes, Lee, Lozano, Ornellas, and Sayles (5) voting "aye," and Regent Connerly (1) voting "no."

> [For speakers' comments, refer to the minutes of the November 17 meeting of the Committee of the Whole.]

12. **APPROVAL OF THE UNIVERSITY OF CALIFORNIA FINANCIAL REPORT, 2004**

The President recommended that, with the concurrence of the Committee on Audit, the Committee approve the University of California Financial Report, 2004.

> [The University of California Financial Report, 2004, was mailed to all Regents in advance of the meeting, along with copies of the June 30, 2004 audited financial statements for the University of California Retirement Plan, the PERS-VERIP, the Defined Contribution and 403(b) Plan, and the five University of California Medical Centers, and copies are on file in the Office of the Secretary.]

Vice President Broome discussed some details of the report. She noted that the University follows accepted Governmental Accounting Standards Board (GASB) practices, which has added new requirements annually that have made the University's financial reports complex and voluminous. This year the University was required to include the campus foundations in its financial statements showing net assets, revenues and expenses, and cash flow. In order to show comparative data, figures for 2003 have been restated. In compliance with GASB regulations, individual financial statements of the three largest foundations are found in the footnotes of the University's report.

Ms. Broome reported that the University had total assets of about $33 billion, which is an increase of $3.2 billion over the previous year. Liabilities were $15 billion, resulting in a measure of financial condition of about $18 billion, which is an increase of $1.3 billion over the previous year. Concerning some major categories of assets, investments of $11.6 billion, which make up 35 percent of the University's assets, grew just under 5 percent, largely because of growth in the endowment pool, and some net appreciation was realized by repositioning the portfolio as the University moves to more external management, and compliance under the investment plan. Investment of cash collateral is 11 percent. The University lends securities to select brokerage houses, for which it receives cash or securities as collateral. That category appears under assets, and the University's obligation to pay back that collateral appears under liabilities. The University earns income on those loans. Capital assets, over $14 billion, have increased by 12 percent over the previous year. That comprises 43 percent of the University's assets, including land, infrastructure, and buildings. The remaining category of $3.6 billion, which makes up 11 percent, includes items such as receivables and mortgages. The largest single liability is a debt of $6.9 billion, or 46 percent of the University's total debt, that is financing the University's capital. It increased this year by about 9 percent, due largely to a new general bond obligation that refinanced some existing debt, plus some hospital debt, and about $550 million of commercial paper. Other liabilities, which comprise 30 percent of the University's obligations, include myriad categories such as accounts, salaries, and insurance payable. Liabilities in total are $15 billion. Net assets are just under $18 billion, the largest portion of which is invested in capital assets. The next major area is restricted funds, which include an endowment corpus of $784 million. Expendable assets of $4.3 billion represent gifts and endowments which may be spent, although for externally restricted purposes only. According to GASB, anything that does not fit into the top three categories must be placed in an unrestricted category, which for the University amounts to $5 billion, or 29 percent of its net worth.

Ms. Broome commented on the summary of operating results for the year, noting that operating revenues total $15 billion and expenses almost $18 billion, resulting in an operating loss of $2.8 billion. The University will always record an operating loss, because GASB does not allow it to report the State appropriation as part of its operating revenue, even though it supports the core education mission of the University. Income before other changes in net assets is a better measure of the University's current annual performance, because it includes private gifts, the State appropriation, and investment income used in support of the University's mission. She noted that one element that can affect the category "income before other changes in net assets" is any increase in appreciation of investments. She emphasized that this is not spendable cash. The category "other changes in net assets" includes capital and private gifts. The total increase in net assets was $1.3 billion for the year.

Ms. Broome discussed specific categories of operating revenues and expenses. She noted that student tuition and fees of $1.4 billion, which make up only 9 percent of the University's revenues, increased by 25.6 percent. Grants and contracts of $3.8 billion make up 26 percent. The number of grants and the amount of the awards both increased this year. The category "medical centers, educational activities, and auxiliary enterprises" accounts for 36 percent, which is an increase of 7 percent, mainly because of medical center revenue increases. Department of Energy laboratory revenues account for 27 percent. As the contractor, the University includes in its financial statements only the revenues and the expenses, because the assets and liabilities are owned by the federal government.

Turning to the category "operating expenses," Ms. Broome noted that the University is required to report expenses by their natural classification rather than functionally. At 48 percent, salaries and benefits account for the majority of the University's expenditures. The percentage would be much higher if salary expense for the laboratories were included. The growth in that area was in benefit costs, not salaries. Supplies and materials, which includes the medical centers, has been a challenging area. The medical centers have been experiencing a high rate of inflation in medical supplies.

Ms. Broome addressed nonoperating activities and other changes in net assets. She pointed out that State educational appropriations decreased by 10 percent, while private gifts increased by 12 percent. Together, non-operating funds amounted to $3.6 billion. These are very important to the University's core mission. The category "other changes," mostly capital items, was down by 18 percent because FEMA money related to UCLA rebuilding was less than the previous year.

Ms. Broome addressed the two financial statements for the retirement system. She noted that the Regents also receive a retirement report which has separate financial statements for all the retirement plans; the regular defined benefit, the defined contribution, and the 403b, the results of which are summarized in these financial statements. She reported that total assets, 80 percent of which are in investments, were $59 billion.

Ms. Broome touched briefly on future challenges, particularly those related to GASB requirements. She reported that for the next four or five years she would provide reports on the changes that will be initiated. Because of the complexity of the University, the difficulty in assembling the information, and the need to restate the prior year for comparability, the changes will be implemented over three years. The next statement, which will be reported in the coming year, will contain significant increases in disclosure on investments. There will be specific categorization that will probably add six to eight pages to the annual report.

Another upcoming statement, which will be effective for 2006, although 2005 will be restated if applicable, examines capital assets for impairment. There will be specific requirements as to how an impairment of an asset must be disclosed.

Probably the most significant statement for the University is Other Post Employment Benefits. The University currently pays for its annuitant health on a pay-as-you-go basis. Retirees are paid their health insurance on a cash basis as it comes due every year. Effective for 2008, the University will be required to pay those on an accrual basis over the life of an employee. This means that the University must establish a liability on the books for both the laboratories and the University of $11 billion, which will be classified as unrestricted net assets. It will be recording annually expense of about $1.5 billion. This has funding implications versus the pay as you go, in that it does not have to be fully funded; various funding plans may be selected, but a review of the plan designs will be warranted. The administration is considering how to implement the requirement and will be conferring with accountants as a plan is developed.

Regent Lee was concerned about the need to restate information, which to him suggests that mistakes have been made. Ms. Broome assured him that the reason for any restatements will be explained by management in the reports. Restating numbers because of the implementation of new accounting pronouncements does not carry any negative implications.

Regent-designate Juline noted that faculty and staff increased by 1 percent over the prior year, while salary and benefit costs increased by 5 percent. Ms. Broome explained that those salaries include benefits, which were affected by a 10 percent premium increase for health care.

Upon motion duly made and seconded, the Committee approved the President's recommendation.

13. **THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – ACTUARIAL VALUATION**

It was recalled that, effective April 1, 2004, The Segal Company (Segal) was appointed by the Regents as the Consulting Actuary for UCRP, based on the results of a comprehensive bid and evaluation process. Each year, in accordance with actuarial reporting requirements of the Internal Revenue Code (IRC) and the University of California Retirement Plan (UCRP or Plan), the Plan's Consulting Actuary performs an actuarial valuation of the Plan. The purpose of the annual valuation is to disclose the Plan's funded position as of the beginning of the current Plan year, analyze the preceding year's experience, and recommend contribution rates for the upcoming calendar year.

Senior Vice President Mullinix introduced Mr. Paul Angelo, of The Segal Company, to discuss the year's actuarial valuation, the main points of which are as follows:

Issues

- The June 30, 2004 market value of assets of UCRP was $39.2 billion, up from $35.3 billion in the prior year, reflecting a 14.5 percent investment return.
- The actuarial (smoothed) value of assets earned 2.5 percent compared to the expected total return of 7.5 percent.
- The July 1, 2004 actuarial accrued liability grew to $35 billion from $33 billion in the prior year.
- The UCRP normal cost for the 2004-2005 Plan year is 15.04 percent of covered payroll, or $1.18 billion.

- The valuation results show that the Plan assets are sufficient to maintain a zero percent of payroll contribution rate for the 2004-2005 Plan year.
- Stochastic funding projections show a very high likelihood that the Plan will become less than fully funded within the next several years.

Previous Action

- The July 1, 2004 valuation results incorporate the assumption changes, including a revised mortality basis, that were approved by The Regents in November 2003.
- Effective April 1, 2004, The Segal Company was appointed by The Regents as the Consulting Actuary for UCRP, based on the results of a comprehensive bid and evaluation process.

Future Action

- The Consulting Actuary and UC HR/Benefits, in consultation with the Treasurer's Office, plan to present information for discussion to The Regents in early 2005 regarding strategies for resuming contributions to UCRP and potential new retirement design options for new hires.

The purpose of the annual valuation is to disclose the Plan's funded position as of the beginning of the current Plan year, analyze the preceding year's experience, and recommend contribution rates for the upcoming calendar year. The results of the actuarial valuation as of July 1, 2004 are summarized and presented in the Executive Summary section of the actuarial valuation report.

The actuarial valuation results show that the value of Plan assets is sufficient to maintain a zero percent payroll contribution rate for the 2004-2005 Plan year. This recommendation is in line with the full funding limitation described in IRC §412(c)(7)(A), as adopted by The Regents in 1990 based on amendments to IRC §412 through that date. Under Regents' policy, the University will suspend contributions when the smaller of the market value or the actuarial value of Plan assets exceeds the lesser of the actuarial accrued liability including normal cost or 150 percent of the current liability including normal cost.

At the Plan year end, June 30, 2004, the market value of assets of UCRP, after subtracting benefit claims currently payable and other current payables of the Plan, was $39.2 billion, as compared to $35.3 billion as of the end of the prior Plan year. During the 2003-2004 Plan year, the Plan experienced a 14.5 percent investment return on the market value of Plan assets.

When determining the Plan's funded status ratio, the Plan's actuarial accrued liability (AAL) is compared to the actuarial (smoothed) value of assets (AVA). The "smoothing" method reduces the impact of market volatility by recognizing, in each year, only 20 percent of the investment gains and losses in each of the preceding five years. As of June 30, 2004, this five-year period includes three years of investment losses, and the result is a 2.5 percent investment return for the 2003-2004 Plan year on an actuarial value of assets basis.

The Plan's surplus, the excess of the actuarial (smoothed) value of assets over the actuarial accrued liability, decreased during the 2003-2004 Plan year, primarily because the liability grew at approximately the rate expected, but the smoothed value of assets earned 2.5 percent compared to the expected total return of 7.5 percent. This resulted in an actuarial loss, despite a market value return of 14.5 percent for the Plan year.

The Plan's actuarial accrued liability increased from $33 billion as of July 1, 2003 to $35 billion as of July 1, 2004. The Plan's funded ratio decreased from 126 percent as of July 1, 2003 to 118 percent as of July 1, 2004 as a result of the investment loss on the smoothed (actuarial) value of assets and the fact that no contributions are being made to offset the Plan's normal cost. The "normal cost" of the Plan, as defined under ERISA §3(28), is the annual amount, expressed as a percent of payroll (the "normal cost rate") that must be accrued over the total career of each employee to provide for future UCRP benefits, measured as of the valuation date. Under the entry age normal method, as a percentage of covered payroll, the UCRP normal cost for the 2004-2005 Plan year is 15.04 percent, or $1.18 billion.

The July 1, 2004 calculations of actuarial accrued liability and normal cost incorporate the assumption changes, including a revised mortality basis, that were approved by The Regents in November 2003. The full impact of long-term assumption changes is being offset by a temporary three-year reduction in annual salary increase assumptions, modeling the effect of current budgetary constraints. The first-year effect of this temporary reduction in the salary increase assumption contributed to a one-time decrease in the Plan's normal cost rate (from 15.22 percent in 2003-2004 to 15.04 percent for 2004-2005). The July 1, 2005 and July 1, 2006 valuation results will reflect a gradually increasing normal cost rate as the period of temporary reduction in salary increases is reduced from two years to one year and is phased out for the July 1, 2007 valuation. The July 1, 2007 valuation results will reflect the full effect of the long-term assumption changes.

More detailed schedules and descriptions related to the UCRP actuarial valuation are included in the UCRP Valuation Results, Supplemental Information, and Reporting Information sections of the actuarial report as of July 1, 2004.

Mr. Angelo noted that, while the current valuation reflects that the Plan remains over 100 percent funded on both a market value of assets basis (112 percent) and an actuarial value of assets basis (118 percent) and that no University or member contributions for the 2004-2005 Plan year are required, the "contribution holiday" is not expected to last much longer. In fact, stochastic funding projections show a very high likelihood that the Plan will become less than fully funded within the next several years. To address this issue, the Consulting Actuary and UC HR/Benefits, in consultation with the Office of the Treasurer, plan to present information for discussion with the Regents early in 2005 regarding strategies for resuming contributions to UCRP, and potential retirement design options for new hires.

Associate Vice President Boyette commented that, as faculty and staff have not received salary increases for some time, the issue of resuming retirement plan contributions is especially difficult. A general discussion will be scheduled of some options for new retirement designs as a possibility for new hires, in response to the need to review the cost of benefits and to examine the University's benefits in comparison with other institutions for recruitment and retention purposes. After discussion with the Regents, there will be extensive consultation with the University community, including the Academic Senate, before a more focused discussion may be held. Mr. Mullinix believed the discussion would start at the March meeting. It will be necessary to plan for a transition into having both the University and employees make contributions. The shape of that transition curve needs to be discussed with the Regents. A timetable for implementation of the transition will depend on the next few years of the Plan's financial performance. The analysis will be coordinated with the Treasurer's Office.

14. **UPDATE ON STRATEGIC SOURCING**

This item was postponed to the Committee's meeting of November 18.

15. **REPORT ON NEW LITIGATION**

General Counsel Holst presented his **Report on New Litigation**. By this reference, the report is made a part of the official record of the meeting.

The Committee recessed at 3:35 p.m.

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The Committee reconvened at 1:30 p.m. on November 18, 2004, with Committee Chair Blum presiding.

Members present: Regents Blum, Dynes, Kozberg, Lee, Ornellas, Parsky, and Sayles; Advisory members Juline, Rominger, and Blumenthal

In attendance: Regents Anderson, Johnson, Marcus, Montoya, Novack, Pattiz, Preuss, Ruiz, and Wachter, Regents-designate Rosenthal and Brunk, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost Greenwood, Senior Vice President Darling, Senior Vice President Mullinix, Vice Presidents Broome and Hershman, Chancellors Carnesale, Cicerone, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chemers, Executive Vice Chancellor Gray representing Chancellor Birgeneau, University Auditor Reed, and Recording Secretary Bryan

16. **UPDATE ON STRATEGIC SOURCING**

President Dynes commented that, as the University is concerned about sources of revenue, it is important to examine efficiency within the system. One of the best opportunities for saving money appears to be collaborative purchasing.

Senior Vice President Mullinix reported that Strategic Sourcing is a process designed to maximize the purchasing power of large, decentralized organizations by consolidating and leveraging common purchases. The primary objective is to achieve significant cost reductions without sacrificing quality or service.

There are two primary Strategic Sourcing programs under way at the University. One addresses the approximately $2 billion of non-information technology (IT) related purchases and the other addresses specific IT products and services.

The non-IT Strategic Sourcing initiative was launched in July 2003 under the management of Vice President Broome and Executive Director Davis. Originally piloted in 1996, with success at UCLA, the Strategic Sourcing model is being implemented throughout the University system. Vice President Broome described the implementation and results of the non-IT purchasing effort. In addition to developing the infrastructure of people and technology necessary to implement and sustain Strategic Sourcing, seven sourcing initiatives have been launched that address $400 million in purchasing activity. Most recently, a systemwide project was completed for the University's $22 million of office supply purchases, with potential savings of $4.4 million, or 20 percent.

The second initiative, the Information Technology Licensing and Procurement Program, saves the University more than $25 million annually on a spending volume of approximately $150 million. The program's tremendous success is the result of active participation by all ten campuses, the five medical centers, the three national laboratories, and the Office of the President. Under the leadership of Associate Vice President Hafner and Director Collins, University institutions consolidate their spending on computer hardware and software and achieve significant savings. Equally important are dramatic reductions in administrative overhead that result from consolidated contracts and reduced transaction volumes.

While the IT Licensing and Procurement Program has existed since 1994, Ms. Hafner initiated a major expansion upon her arrival in the UC Office of the President Division of Business and Finance in July 2002. Recognizing an opportunity to benefit campuses through systemwide action, she worked with the UC IT Leadership Council to build sponsorship for this more aggressive program. Large software contracts have been the primary focus of the recent program expansion. Unique characteristics of software procurement, along with the current business climate in the software industry, create an environment well-suited to consolidating contracts, negotiating significant discounts, and obtaining more flexible terms and conditions.

In order to achieve savings, existing software licensing agreements are renegotiated, numerous campus contracts with the same vendors are consolidated, and new agreements are launched. For example, ten major mainframe software maintenance agreements were consolidated into one agreement and costs were cut in half, resulting in savings of approximately $1.5 million per year. In another example, 81 contracts for desktop software were consolidated into one, resulting in annual savings of more than $1 million. The new contracts have many other advantages, including the ability dynamically to move software assets around the University.

Regent Blum believed that the rate of return on investing in efficiency measures would be continue to increase. Mr. Mullinix cautioned against believing that these measures will alleviate the University's budgetary problems, however. He noted that the money saved through efficiencies will not necessarily fall to the bottom line.

In response to a question asked by Regent Marcus, Vice President Broome stated that the initiative would take two or three years and cost approximately $1 million per year.

Regent Blum believed it would be useful to receive an update at each Committee meeting on the progress of the initiative and to establish time lines for accomplishing incremental goals. He suggested presenting a demonstration of the software at a future meeting.

Regent Kozberg mentioned that it was the optimal time to work with the State, which has let a contract for strategic sourcing. She asked what the impact of doing strategic sourcing would have on small business. Ms. Broome responded that, as an example, it is estimated that the Office of the President could save $200,000 of its annual $900,000 expenditure for supplies.

Regent Lee believed that particular attention should be paid to the University's construction projects, where it is likely that substantial funds could be saved through strategic sourcing.

17. **APPROVAL OF UNIVERSITY OF CALIFORNIA 2005-06 BUDGETS FOR CURRENT OPERATIONS AND FOR CAPITAL IMPROVEMENTS AND APPROVAL OF PROPOSED INCREASES IN STUDENT FEES FOR 2005-06**

A. The Committee recommended that the expenditure plan included in the 2005-06 Budget for Current Operations be approved.

B. The Committee reported its concurrence with the recommendation of the Committee on Grounds and Buildings that the 2005-06 Budget for Capital Improvements be approved.

C. The Committee recommended that student fees be increased for 2005-06 as follows:

(1) Effective summer 2005, mandatory systemwide fees be increased as shown in Table 1. These increases are consistent with the Compact with the Governor which provides that undergraduate fees increase by eight percent and graduate student fees increase by ten percent in 2005-06.

TABLE 1

Proposed Increases in Mandatory Systemwide Fees for 2005-06			Educ/Reg Fees: Total Annual Fee Levels for 2005-06
	Educational Fee	Registration Fee	
Resident Undergraduate students	$435	$22	$6,141
Nonresident Undergraduate students	$471	$22	$6,657
Resident Graduate academic students	$606	$22	$6,897
Nonresident Graduate academic students	$628	$22	$7,164
Professional Fee students	$606	$22	$6,092

Of the revenue generated from the increases in mandatory systemwide fees from undergraduate students, an amount equivalent to 25 percent will be set aside to mitigate the impact of the fee increases on financially needy undergraduate students. Of the revenue generated from the increases from graduate academic students, 50 percent will be set aside to provide additional funds for financial aid for needy graduate academic students, and 25 percent of the revenue generated from the increases from students subject to professional fees will be set aside for financial aid for those students.

(2) Effective fall 2005, existing Fees for Selected Professional School Students be increased by three percent as shown in Table 2. In addition, it is recommended that a Fee for Selected Professional School Students of $4,000 be approved for 2005-06 for the following programs: Master of Public Policy, Master of Public Health, and Master of Pacific International Affairs program.

TABLE 2

	2005-06 Proposed Increases in Professional Fees	Estimated 2005-06 Total Annual Charges (Base Levels)
Medicine	$391	$22,407
Business	$416	$22,323
Law	$409	$21,863
Dentistry	$377	$21,238
Veterinary Medicine	$317	$21,076
Optometry	$260	$16,215
Pharmacy	$260	$16,777
Theater, Film & Television (UCLA only)	$174	$13,261
Nursing	$88	$10,649
Public Policy / International Relations & Pacific Studies	$4,000	$11,424
Public Health	$4,000	$11,291

Finally, it is recommended that the President be delegated authority to approve additional increases, in consultation with the chancellors, not to exceed 15 percent of the total of mandatory systemwide fees (Educational Fee and University Registration Fee) and professional fees. The revenue from these additional increases may be used to maintain the quality of the academic programs, to provide financial aid, and to assist the professional programs in attracting and enrolling students.

(3) Effective fall 2005, the Nonresident Tuition Fee be increased by 5 percent, or $828, for nonresident undergraduate students only, from $16,476, to $17,304. It is recommended that the Nonresident Tuition Fee for graduate academic students and for students paying the Fee for Selected Professional School Students remain at their current annual levels of $14,694 and $12,245, respectively, for 2005-06.

Vice President Hershman reviewed briefly some highlights of the budget, which he noted is based on the priorities adopted previously by The Regents.

Regent Johnson asked about the basis for determining how much money is returned to student financial aid. Mr. Hershman responded that the amount has evolved over time. For instance, the Cal Grant program has become an entitlement that is provided to every eligible student. It is an amount equivalent to 24 percent of the University's fee revenue. For UC return to aid, the figure started at 16 percent in 1980. As fees are increased, the 16 percent was kept in the base, but at the margin it became as high as 33 percent. This year, the Governor and the Legislature agreed to a level of only 20 percent return to aid. The University is suggesting 25 percent for next year, which added to Cal Grants equals about

50 percent. He explained that 50 percent has been chosen because it will allow the University to take care of all students who are eligible for need-based financial aid; approximately 50 percent of the University's students will not have to pay the fee increase. A second priority is to make sure that the total cost of attendance and how much students have to work and borrow are within manageable ranges. The University developed a model for calculating a reasonable range.

Regent Johnson asked whether there were a sufficient number of part-time campus jobs to allow all students who qualify for financial to do the minimum 13 hours per week. She was informed that work-study funds have never been sufficient to cover all student employment; there have always been students working off campus.

Regent Juline pointed out that the percentages are applied to just the incremental increase fees in a given year rather than the absolute amount of student fee income that is set aside for aid. For example, the cumulative percentage set aside for student aid up to this year was 26 percent and has never been 33 percent, so it is not dropping from that.

Regent Anderson recalled that for many years the University was a "no-fee" or "low-fee" institution and because of that, it had a lower amount of return to aid. As it began to embrace a higher fee model in the early 1990s, a larger commitment to financial aid was needed in order not to disadvantage low-income students. As the fee structure began to increase, there was a higher return to aid on those increments. Although there was a 20 percent return to aid last year, in the Compact for this year and future years the University is given the flexibility to chose from a range of 20 percent to 33 percent. She believed that setting next year's fees should be thought about not as a one-year decision but as setting a path and making a statement about the institutional values and how committed the Regents are to providing an affordable education for low-income students.

Vice President Hershman noted that campuses raise private support, about $37 million last year, that is distributed to students based both on merit and on financial need.

In response to a question asked by Regent Anderson, Mr. Hershman reported that the 2004-05 cost of attending UC is $19,400, or nearly $2,000 more than the previous year, due partly to fee increases and partly to other cost increases.

President Dynes invited Ms. Jennifer Lilla, president of the University of California Student Association, to address the Regents. Ms. Lilla expressed her opposition to raising student fees, which she believed would keep students from applying or force them to drop out because they have to work more. She supported a level of return to financial aid of 33 percent, as she did not believe the University could depend on Cal Grant money and private donations to cover the difference. She expressed concern that fee increases will take UC students further away from the dictates of the Master Plan for Higher Education to provide widespread educational opportunity. She noted that until the total cost of attendance is considered fully, it is unfair and erroneous to justify any fee increases by claiming that the University is still relatively more affordable than its comparable institutions. She requested that the vote on the 2005-06 budget be postponed until it can be ascertained whether the State budget truly will not provide an amount sufficient to offset further fee increases.

Regent Parsky was assured by Vice President Hershman that the combination of the 25 percent level of return to aid combined with Cal Grants is sufficient to cover the fee increases for all needy students.

In response to a question asked by Regent Sayles, Vice President Hershman explained that the Education Financing Model Group, which is comprised of representatives from throughout the University system, recommended that the University adopt as policy a 33 percent return to aid. The group, which was looking only at financial aid rather than the total budget, noted that it could make recommendations only with respect to financial aid and acknowledged that the Chancellors would need to put that recommendation into perspective based on salary needs, maintenance costs, and other requirements. The Chancellors supported unanimously the 25 percent and 50 percent return-to-aid levels proposed in the budget.

Regent Marcus emphasized that the budget had been developed based on the priorities that had been established by the Regents. The first of these was to maintain quality, which he noted was related closely to faculty salaries, which have fallen behind by a total of $250 million. Mr. Hershman reported that, although it will not be possible to make any headway on restoring salaries, the recommended budget reflects an effort to prevent the figure from growing. It is planned in future years to begin making progress at perhaps 1 percent per year toward bringing down the 9 percent gap, as allocations in future years of the Compact increase. By the end of six years the gap could be closed to 4 percent. Regent Marcus maintained that preserving the value of a UC degree was the impetus for presenting the budget as proposed.

Regent Blum recalled that the amount of funding from the State per student has declined since 1985-86 by about 40 percent. The amount of funding in the last two to three years has declined from $3.3 billion to $2.5 billion, salaries lag the market by 15 percent to 20 percent, and the student-faculty ratio has increased from 14:1 a generation ago to 20:1. He emphasized that all Regents are unhappy with the limited amount of State funding and have lobbied hard for increases, but in the end it is the prerogative of the Governor and Legislature to set the funding level. He believed that increasing State support for the University is an issue that is critical not only for the future of the University but also for the state and the country.

Regent Pattiz expressed surprise that the $6 million that could prevent the level of return to aid from falling to 25 percent could not be found somewhere within the University's budget. Mr. Hershman explained that the problem is the University has been cut by $500 million and has been given no money for salary increases. In determining the appropriate level for return to aid, the Chancellors were forced to find balance among their many priorities.

Regent Lee believed quality was very important. He suggested that accepting 10,000 students worldwide who would pay full tuition for the privilege of attending UC could result in significant net revenues. Mr. Hershman commented that the level of nonresident students is declining, partly because of increased fees but also because of the increased denial of visas.

Regent Anderson acknowledged that the Regents' decisions concerning the budget are constrained by fiscal realities beyond their control. The State is not giving sufficient support for providing an affordable education to the people of California. Despite this fact, she did not accept the necessity of limiting undergraduate return to aid to 25 percent. She believed that the cost of instituting a level of 33 percent return to aid would be worthwhile in that it would assure adequate support for the lowest income students. Regent Blum suggested discussing that specific matter in the future, noting that in the meantime the Regents are required to pass a budget.

It was noted that the President had withdrawn C.(2), the second paragraph of the last provision of his recommendation, that would have given him the authority to approve additional increases in Fees for Selected Professional School Students.

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

[For speakers' comments, refer to the November 17 minutes of the Committee of the Whole.]

The meeting adjourned at 3:10 p.m.

Attest:

Secretary