The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
November 4, 2004

The Committee on Grounds and Buildings met on the above date at 1000 Broadway, Oakland.

Members present: Regents Anderson, Hopkinson, Johnson, Montoya, Ornellas, and Ruiz; Advisory members Rominger and Brunk

In attendance: Regent-designate Rosenthal, Associate Secretary Shaw, General Counsel Holst, Senior Vice President Mullinix, Vice President Hershman, and Recording Secretary Bryan

The meeting convened at 11:10 a.m. with Committee Chair Hopkinson presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice was given in compliance with the Bylaws and Standing Orders for a Special Meeting of the Committee, for this date and time, for the purpose of considering matters on the day's agenda.

2. **UNIVERSITY OF CALIFORNIA 2004-05 TO 2008-09 NON-STATE CAPITAL PROGRAM**

Vice President Hershman recalled that the report entitled *University of California 2004-05 to 2008-09 Non-State Capital Program*, which was mailed to the Committee in advance of the meeting, provides an overview of longer-term capital plans and projects the University's non-State capital program during the next five years. It provides a projection of future facilities to be developed using non-State sources. Specific projects funded from non-State sources will continue to be brought to The Regents for approval at its regular meetings, when the scope and cost of projects are made final and the feasibility of funding plans is confirmed. It is anticipated that the scope, cost, and funding plans of these future projects will change to some degree by the time they are presented for project and funding approval.

The report has a chapter for each campus that includes the following information:

- An overview of the campus planning context in which the projection of non-State-funded projects has been developed.

- A table that displays the list of projects that the campus estimates it will bring forward for approval during the five-year period, followed by a summary of the total project costs and anticipated fund sources that will support the Non-State Capital Program.

- A brief narrative description of each capital project proposed for funding from non-State sources during the five-year period.

The Non-State Capital Program is based on the campuses' best estimates of non-State fund sources that will be available for defined capital projects over the five-year period. These fund sources include debt financing, campus resources, gifts, capital reserves, and federal funds. In addition, the number of projects such as the California Institutes for Science and Innovation and medical center projects that address seismic safety requirements with funding plans that rely on both State and non-State sources has increased in recent years. The report contains a summary of the projects included in the 2004-05 to 2008-09 Non-State Capital Program by program category and fund source.

Some campus capital development has taken place through land lease agreements and other development arrangements with third-party entities. These projects are not normally included in the capital budget but rather are approved through a variety of contractual agreements. Potential third-party developments on the campuses are included in the report, however, in order to display the full range of capital development activities expected to take place on the campuses over the next five years.

It should be noted that while the lists of campus projects address a wide range of facilities needs, the campus capital programs outlined in the report do not meet all identified capital needs. The campuses have included only those projects that they believe can be sufficiently defined in terms of scope and cost and for which a reasonable funding plan can be defined. For example, potential projects to meet identified needs may not be included in the program because alternative solutions are still being evaluated or funding sources cannot be identified, especially for projects that will be approved in the fourth or fifth year of the Non-State Capital Program. Some campuses are evaluating the feasibility of capital campaigns to raise gift funds for capital purposes or are in the process of identifying the priority projects to be included in a future gift campaign and, therefore, have not included all projects that might be funded from future gifts in the Non-State Capital Program.

Vice President Hershman commented on the value of having the campuses focus on their priorities, looking realistically at debt capacity and gift fund expectations.

Senior Vice President Mullinix noted that the University's Non-State Capital Program is less structured than the State's. Priorities will evolve depending on factors such as gift opportunities. An effort has been made to put in place a best estimate of the next five years' requirements. Although some projects have been removed from the five-year plan because it seemed unlikely that adequate gift funds could be raised, they could be re-added later. Last year's projects totaled $4.8 billion. In referring to a chart for 2004-05 to 2008-09, he noted that the latest five-year plan of $3.9 billion is a reflection of the economic realities of the past year and the more rigorous planning process. A large portion of the expenditures are related to auxiliary enterprises, particularly housing. In response to a question by Regent Hopkinson concerning the summary of the non-State capital program by program category and fund source, Mr. Mullinix explained that the

source of the funds for the projects is debt, which is serviced through fee recovery. The meaningfulness of the numbers, which are derived from the campuses, are tested based on current and projected revenues and expenditures to determine whether the campuses are capable of servicing the level of debt that is implied in the model. There are models also to test whether the campuses will be capable of servicing the cost of the projects through recoveries in their programs. All of the programs from the campuses have been tested. With the exception of one campus program that is being reevaluated, the projects are consistent with rules and regulations regarding campus payment of debt.

Regent Hopkinson believed that distinguishing between State and non-State funding was not relevant to the Committee's purpose, which is to set priorities for buildings. She suggested having the summary tables integrated. Vice President Hershman responded that such a column would reveal that all of the State program is in general campus and health sciences. When the campuses make individual presentations to the Committee, they will attempt to tie their longer- range objectives regarding their academic focus to their priority listing for new buildings.

Senior Vice President Mullinix presented a series of charts to show the differing nature of the State programs. They show the breakout by source of fund and total program by campus for each program. He believed that they show an interesting view of how each campus plans to finance its activities. He noted that the Berkeley program will be funded using a substantial amount of gift revenue. Davis has a much lower level of gift funding and a higher proportion of debt. Irvine is moving toward a lower level of gifts and a higher level of debt. UCLA has a lower level of gifts. In general, long-established campuses have a higher level of gift funding, and newer campuses, which do more construction, have a higher level of debt.

Mr. Mullinix discussed the housing program, which represents a substantial portion of the non-State program. He recalled that in November 2002 a report on housing was presented to The Regents that described a plan to increase beds in the system by 39,600. About 18,000 of those were to be third-party, which was a market experiencing growth at the time. A developer uses its financing and resources to construct housing on University land. The project is then operated by a third party independent of the University and is not reflected as a liability of the University. During the past two years, this market has changed dramatically. Because of some actions that have been taken in the credit enhancement market, these projects, which tend to be all debt funded, have lost their appeal. The 2004 plan shows an approximately 50 percent reduction in anticipated third-party housing. In 2003-04, 33,090 beds came on line. In 2004-05 there are 4,300 beds coming on line, and there are an additional 9,000 beds planned. The total of 13,000 beds keeps up with enrollment growth for freshmen and sophomores.

Senior Vice President Mullinix concluded his report by stating that individual campus presentations to the Committee will be arranged simultaneous to significant campus projects. Both State and non-State programs will be presented at that time.

3. **APPROVAL OF UNIVERSITY OF CALIFORNIA 2005-06 BUDGET FOR CAPITAL IMPROVEMENTS**

The President recommended that, subject to concurrence of the Committee on Finance, the Committee recommend that the 2005-06 Budget for Capital Improvements be approved as presented in the document titled *2005-06 Budget for Capital Improvements.*

Vice President Hershman commented on a number of items having to do with the University's capital budget request. He noted that the enrollment growth that is projected through 2010 has a significant impact on the budget. Under the compact with the Governor, the University will return to a plan that accommodates an additional 5,000 students per year, which would result in 220,000 students by 2010. The State-funded capital budget was about $200 million in the 1980s. Starting in the late 1990s, there were large increases that included lease revenue bonds for hospitals plus funding for the Merced campus and the California Institutes of Science and Technology. The compact provides for $345 million per year. The University's record of meeting California Postsecondary Education Commission space standards for general campus space has ranged from close to 100 percent during the mid-1990s to a projected 92 percent of the standard in 2012 if the State honors its commitment and if bond issues pass. If capital bond issues fail and capital outlay funds are not available, the percentage will be approximately 82.

Mr. Hershman noted that the capital budget originally was expected to be $355,530,000, based on an agreement with the Governor, the Legislature, and the Department of Finance. As the State has found itself unable to continue covering certain expenses, negotiations with the Department of Finance have resulted in a lower amount of money being available to the University than was expected. The State needs to accommodate its higher administrative costs and intends to charge to the University interest costs during construction, which in the past were paid by the General Fund. Also, the Department of Finance hopes to retain a reserve. As a result, the University will have to scale back its capital program over time. One roughly $50 million campus project may have to be deferred, although no firm decision can be made until mid-December. He requested that the Committee approve the program as submitted and make any necessary adjustments later. He explained that the percent of administrative overhead to be charged by the State is under negotiation. The interest cost during construction will be significant. The State has charged administrative costs against the capital program in the past, but it appears that the amount may be raised. The charges the State intends to make against the $345 million of capital funds in the Compact are asserted to be legitimate charges. The amount of bond funds was set forth in the bond act that is in its final year. He noted that the State wishes to apply these interest and administrative costs also to the previous three years.

Regent Hopkinson observed that the State intends to differentiate among kinds of interest, notwithstanding that the bond amount was approved by the voters. She suggested that a legal opinion may be necessary on the matter as a constitutional issue. Senior Vice

President Mullinix commented that putting the capitalized interest in the expense calculation is not extraordinary, but to do so retroactively is.

In response to a question by Regent Johnson, Mr. Hershman reported that each campus has a five-year target for its capital program. The Office of the President sets budget priorities based upon enrollment growth and the existing physical plant. The program must be balanced from year to year.

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

4. **REPORT ON CONSTRUCTION MARKET CONDITIONS**

During 2004, conditions in the construction marketplace have become an important issue that has affected many recent University projects. Assistant Vice President Bocchicchio discussed the recent changes in the construction economy, the impact on University capital projects, and various methods used by the University to respond to the dramatic change in the market place. He reported that a task force had been formed in the Office of the President to review issues common to the system and develop solutions that all campuses could use.

Mr. Bocchicchio reviewed the University's bidding experience and the features of the marketplace since 2002. He reported that from 2002 to 2003, the economy was emerging from a short recession. Housing construction markets were very strong, but commercial construction markets were weak. This resulted in very low contractor margins on particular projects. Construction material costs were declining until mid-2003. At the end of 2003, things began to change dramatically. Although housing had been anticipated to slow down, it speeded up. Rising interest rates did not result in a decline in housing starts. The commercial construction market sector started to rebound, which initiated an increase in contractor margins. Also, structural steel prices, which had been flat in 2002, spiked at the beginning of 2004, causing the prices of related materials to increase by from 15 percent to 45 percent. Because housing starts continued to rise when they had been expected to decline, many material suppliers had insufficient inventories. Cement, for instance, became in short supply. Record prices for crude oil pushed up the price of plastics, roofing and paving materials, and diesel fuel. The labor cost component has followed a similar track in the past year. By 2004, the market forces had shifted from a buyer's market to a seller's or contractor's market. At the beginning of the year, the University was experiencing 3 percent annualized construction inflation. By the third quarter, the figure was up to 10 percent, and demand for construction remains strong.

Mr. Bocchicchio reported that at the system level, the University has investigated data concerning bids for campus construction. Sixty-nine campus projects since 2002 were analyzed. In 2002, only 15 percent of projects were over the pre-bid estimate target. In 2004, that percentage has risen to 85. Another significant finding is that more UC projects had only one to three bidders, and most bids exceeded the budget. Finally, it was determined that construction delivery method or contracting method had no relationship

to the phenomenon. Traditional design-build, construction manager at-risk, and multiple prime methods were affected equally.

After these data were assembled, in an effort to determine what the University could do to attract more bidders, a systemwide forum was created to which general contractors were invited. Mr. Bocchicchio reported on the findings from the forum. Fast tracking construction methodology, which entails bidding a project in separate pieces, was determined to be high risk in this marketplace. Also, large addenda to bid documents become a disincentive for contractors and subcontractors. Addenda are directions to the bidders that come out after the bid documents have been issued. The contractors who participated in the forum agreed that the University should anticipate large increases in labor costs, given the shortage of skilled workers. There are fewer subcontractors available, and their bonding capacity for jobs as large as those at the University is diminishing. Subcontractors and workers have so much work that they can choose which jobs to accept. Private sector work is much more attractive than more complex public sector work. The University retains a percentage of payments made to contractors as a cash reserve until the end of the job. It was suggested that the University consider earlier release of this retention in order to become more attractive to bidders. In such a volatile market, the concept of indexing the price of materials has emerged. It is a way of sharing with the contractor the risk of the volatility in the market. It is seen in the private sector, but until recently was unknown in the public sector. He noted that each situation must be evaluated carefully in terms of the marketplace and risk.

Mr. Bocchicchio observed that the easier it is to work with the University, the more attractive it becomes to bidders. Timeliness is important, as is engaging the construction manager-at-risk contractor earlier so as to have them on hand to advise on construction options and cost controls as the building is being designed. The quality of the construction documents also affects the bid levels. It was suggested that to remain attractive to the building industry as an owner, the University should hold systemwide outreach meetings with contractors and the construction community.

The University developed some project-level responses to the observations that were made at the forum. For projects that are close to going out to bid, the University has relaxed its policies, procedures, and contract requirements in order to become more attractive to the bidding community. For instance, the University is permitting faxed bids and web-based pre-bid conferences. In order not to discourage bidders, the requirement has been eliminated to publish the cost estimate in the newspapers. It has been a practice that particular estimates are published as part of the advertisement for the work. More time will be allowed for bids with alternates, and alternates will be consolidated to the extent possible. Unnecessary bidding documents are being eliminated in order to make the process easier for subcontractors bidding directly to the University or the construction manager-at-risk. Another strategy for encouraging more competition is to let the University take on more risk by not allowing the contractors to require bonds for subcontractors of small contracts. Finally, for design-build projects, implementing the best and final offer process is beneficial. In design-build, the University receives a budget proposal and a design. The University may either sign up a proposer or go into

a process that includes meeting with each proposer to go over the design, discuss items of value, and then give each proposer the chance to submit a final offer. It is another way to achieve some cost control. The University is seeking simpler architectural solutions to projects and the use of benchmarking models to determine where projects should be, and is examining escalation factors.

Mr. Bocchicchio reported that with the strong construction volume predicted for next year, labor costs are predicted to continue their increase. The problem is likely to remain long term, because people are not going into the building trades. There are some factors the impact of which is difficult to measure. The global construction economy demand, the cost of energy, and the related cost of materials are unpredictable. Construction economists are predicting that there will be strong demand in all market sectors, including health care. Mandated seismic retrofitting on medical facilities is putting tremendous pressure on the construction marketplace in California. The only thing that is projected to decrease is single-family housing. Economists believe that the current construction economy cycle may be the longest in many decades. The current construction inflation rate of 10 percent is expected to continue through this year. With the constant construction volume, it is likely that the material sector of the market will soften as supply begins to catch up with demand. Although the labor trend appears to be going in the opposite direction, it is possible that the construction inflation rate will drop minimally.

Regent Montoya believed that another response of the University to the problem could be to reorganize classroom time so as to make the best use of space.

Regent Hopkinson asked to be kept informed about the work of the task force that was to study how the University can address the challenge of its high construction costs unrelated to the issue of timing and materials shortages. Senior Vice President Mullinix expected to be ready to discuss the charge and list the members of the group at the Committee's meeting in January.

Mr. Mullinix recalled that Mr. Bocchicchio had mentioned the possibility of the University's assuming more risk. He explained that the University is paying excessive amounts to have others assume the risk. It makes more sense for the University not to pay more or be limited to a few bidders who will charge more.

Regent-designate Rosenthal asked whether any suggestions had been made for informing the industry that the University is an attractive place to do business. Mr. Mullinix responded that the question of exploiting the University's size advantage would be addressed. He believed that public entities, because of their need for accountability, had difficulty developing longer-term market relationships. The University is constructing a better system for tracking its experiences with architects and contractors.

Regent Ruiz asked about the process for managing costs while on fixed project budgets. Mr. Bocchicchio responded that value engineering is employed beginning with setting the budget and following through the design and development of the construction

documents. The economic and intangible value of every element of the design is determined as a basis for cost decisions. Mr. Hershman noted that the University rarely seeks augmentation on projects. Every project is being reexamined with a view toward cost containment. As a principle, every campus has agreed to stay within its target for the coming five years. The University continues to submit legislative proposals to change State processes, regulations, and law in order to reduce the University's construction costs.

5. **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 Finance, the Committee recommend that the 2004-05 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

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

Vice President Hershman 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. Daily interactions among research faculty will generate broader approaches to research projects and create new opportunities for core grant funding. Shared use of major research equipment, as well as the streamlining of research support services such as animal housing and transportation, will increase efficiency. Centralized vivaria within the Neuroscience Building, Phase 1 will provide safe, efficient animal quarters. Animal areas will be secured in accordance with modern standards, and cross-campus transportation of laboratory animals will be reduced.

Project Description

The Neuroscience Building, Phase 1 will contain 65,000 to 75,000 assignable square feet (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 will 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 and will 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.

6. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR UCI MEDICAL CENTER REPLACEMENT HOSPITAL, IRVINE CAMPUS**

The President recommended that, subject to the concurrence of the Committee on Finance, the Committee recommend that 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).

Senior Vice President Mullinix 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 market conditions that were unanticipated at the time the project was originally budgeted. Additional external financing authorization ($30,002,000) and an increase in hospital reserves funding ($5,037,000) are needed to support the requested augmentation. Approval is requested also to include a building efficiency ratio change for the new hospital from 44 percent to 39 percent, due in part to an increase in gross square feet (gsf) from 432,788 to 482,428. This additional square footage 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 their 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 a new 189,297 asf 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. A discussion of the factors affecting the bid is provided below.

- 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 sub-contractors 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 shelling 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 sub-contractor 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 re-opened 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 located in these buildings. 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 these 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. The anticipated cost will be $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 Center and Level 1 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 with repayment from the ongoing Dean's assessment on clinical practice revenue, and $11 million with repayment 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 total $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 interest, 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 totals $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 will be $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 this 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 increases growth in minimally invasive surgical cases, thereby resulting 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 about $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 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 with the new hospital 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 health care 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.

Regent Johnson expressed concern about lowering the ceiling height of the upper levels of the hospital. She asked what the impact would be in the long term on accommodating future technologies. Assistant Vice Chancellor Gladson acknowledged that the third floor had been reduced by 3 feet. Previously, it was planned to have the third floor convertible to surgery space. The new plan places the pre-operative and post-operative space on the second floor, which could be converted to surgery space in the future.

Regent Hopkinson noted that the bid was $35 million over the five-year plan. She presumed that additional features would need to be cut out. Ms. Gladson responded that the five-year plan would not change. Earlier target issues apply only to State-funded projects. Senior Vice President Mullinix noted that there are parameters for levels of debt for the hospitals, separate from the debt carried by the campus. He reported that days of cash on hand appear to be reasonable for an academic medical center hospital. Vice President Hershman added that every campus proposal is considered, however, in terms of the overall campus debt. Assistant Treasurer Young reported that debt service will begin in 2009-10, when the hospital is projected to be completed. The first full year of operation, the net income will decrease by $20 million as a result of depreciation and interest expense, resulting in a thin margin.

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 FOR CNSI COURT OF SCIENCES BUILDING, LOS ANGELES CAMPUS**

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

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).

Vice President Hershman 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 the 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 primarily attributable 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 has 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 drawings 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 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.

8. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR HEALTH SCIENCES SEISMIC REPLACEMENT BUILDING 1, LOS ANGELES CAMPUS**

The President recommends that, subject to the concurrence of the Committee on Finance, the Committee recommend that 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).

Vice President Hershman 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 the 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 received in June 2001 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 an augmentation of $1,673,000, increasing the total project cost to $68,620,000:

Construction Costs ($2,511,000): Construction management costs have exceeded the original budget ($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 related changes including additional steel support in elevator shafts and in support of the exterior skin were required ($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 cost ($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 that affected 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 re-classified 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 stand-by 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 is estimated at $1,281,000 and 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.

9. **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 Finance, 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.

Senior Vice President Mullinix 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 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 Presidential 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.

10. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR SAN DIEGO SUPERCOMPUTER CENTER EXPANSION, SAN DIEGO CAMPUS**

The President recommended that, subject to the concurrence of the Committee on Finance, 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).

Vice President Hershman 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. Currently, 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 existing 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. Other SDSC-G.A. agreements were entered into after the termination of the operating agreement, all of which 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 Presidential 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.

11. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR UNIVERSITY CENTERS EXPANSION, SAN DIEGO CAMPUS**

The President recommended that, subject to the concurrence of the Committee on Finance, 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).

Senior Vice President Mullinix 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), completed in 1989, 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 existing 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. The referendum stated that the fee would be collected when the facilities were available to the students in fall 2007. 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 quarterly fee will increase 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, a Building Advisory Committee (BAC), two-thirds of which was students, was appointed by the Chancellor in June 2003. The architects were selected by members of the BAC in July 2003. The students worked with the architects 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 approximately 60,000 gsf to 85,000 gsf and for expansion of the Student Center of approximately 10,000 gsf to 15,000 gsf. In total, the student-fee-funded portion of the project is planned to provide about 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 a new 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 supporting 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 those temporary structures 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 timeframe as stated in the referendum.

The project will comply with the Presidential 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 revenue, excluding the student fees, is 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 proposed 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 ground-lease 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 ground-lease 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.

In response to a question by Regent Anderson, Senior Vice President Mullinix responded that the new space allocated for the Cross-Cultural Center represented an expansion of the original space.

In response to a question by Regent Montoya, Vice President Hershman reported that annual mandatory student fees are about $6,000. Campus fees for students range from $400 to $800.

In reference to a question asked by Regent Anderson about the new University Centers fee of $39 per quarter, Regent Hopkinson noted that next year The Regents would receive a report concerning the setting of student fees.

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

12. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM FOR EAST CAMPUS GRADUATE HOUSING, SAN DIEGO CAMPUS**

The President recommended that, subject to the concurrence of the Committee on Finance, 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).

Senior Vice President Mullinix recalled that single graduate and medical students 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 at the San Diego campus 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 graduate students. 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 San Diego 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 built 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 lends itself 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 Presidential 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. 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.

13. **ADOPTION OF FINDINGS AND APPROVAL OF DESIGN, MISSION BAY CANCER RESEARCH BUILDING (17C), SAN FRANCISCO CAMPUS**

The President recommended that, upon review and consideration of the environmental consequences of the proposed project as indicated in Addendum No. 6 to the 1996 Long Range Development Plan Final Environmental Impact Report (LRDP FEIR), the Committee:

A. Adopt the Findings.

B. Approve the design of the Mission Bay Cancer Research Building (17C), San Francisco campus.

[The LRDP REIR and Findings were mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

It was recalled that in September 2004, The Regents approved inclusion of the Mission Bay Cancer Research Building (17C) San Francisco campus, in the 2004-05 Budget for Capital Improvements and the 2004-07 Capital Improvement Program, at a total project cost of $128,621,000 to be funded from campus funds ($13,621,000), gift funds ($85,000,000), and external financing ($30,000,000).

In June 2003, the Office of the President approved the appointment of Rafael Vinoly Architects of New York City as executive architect for the project.

Project Site

The project will be built at the UCSF Mission Bay campus on the eastern portion of Block 17, at the corner of Third Street and Mission Bay Boulevard South and north of the Student Housing project under construction. It will be the fourth research building to be constructed in the first phase of campus development at Mission Bay and is part of the 2,650,000 gsf of the Mission Bay campus, as evaluated in the 1996 Long Range Development Plan Environmental Impact Report. The project is consistent with the 1996 LRDP, as amended.

Project Design

This project will construct a 161,757 gsf (97,168 asf), five-story research laboratory to house School of Medicine clinical research programs, the primary emphasis of which is cancer research in Neurological Surgery, Urology, and the UCSF Cancer Center. The space will comprise wet laboratory, laboratory support, core laboratory support, laboratory office space, and office desktop research; shared administrative space, including a seminar room; a vivarium; and logistical support space. The new building will provide modern clinical research space for approximately 46 principal investigators and will house a total population of approximately 475 researchers and administrative support personnel.

The building is rectangular, with a height of 85 feet to the parapet, in accordance with provisions of the Mission Bay Master Plan. The exterior building wall is articulated on the north elevation in response to the Master Plan setback requirement. Building materials are consistent with the UCSF Mission Bay campus standard, which employs two colors of travertine for the exterior laboratory volume and to define the base, body, and cornice to the south and west. Metal and glass enclose the offices on the east and north, which front Third Street and Mission Bay Boulevard South. Rooftop equipment and laboratory exhaust stacks are screened by metal panel enclosures.

The building structural system includes precast driven piles with pile caps tied together by grade beams. The piles must be driven to a greater depth than was the case with previous Mission Bay laboratory buildings due to site conditions. The building will have a reinforced concrete structure, with reinforced concrete columns, beams, and slabs for vibration mitigation. Lateral resistance will be provided by a dual system of ductile reinforced concrete moment frames and sheer walls.

In conformance with University policy, the project will be designed to achieve the equivalent of LEED certification and to outperform Title 24 by more than 20 percent.

The UCSF Design Advisory Committee has reviewed the design of the Mission Bay Cancer Research Building (17C) in accordance with University policy. Independent cost consultation and structural-seismic peer reviews have been conducted. UCSF Capital Projects & Facilities Management will manage the project. The Senior Vice Chancellor-Finance and Administration will provide University oversight.

Environmental Impact Summary

Pursuant to State law and University procedures for the implementation of the California Environmental Quality Act (CEQA), an Addendum No. 6 was prepared for the Mission Bay Cancer Research Building to consider any potential new significant impacts of the proposed project not previously considered in the 1996 Long Range Development Plan Final Environmental Impact Report, and LRDP Amendment No. 1 and Supplemental EIR. This project was determined to be consistent with the 1996 LRDP as amended by LRDP Amendment No. 1 in January 2002, which established the boundary of the Mission Bay campus site to include 43 acres. This final site configuration and functional zoning designation contemplated a research building on the eastern side of Block 17, as described and analyzed in the LRDP Amendment No.1 Supplemental EIR that was certified by The Regents in January 2002.

Environmental analysis contained in Addendum No. 6 determined that project-specific effects would not alter the conclusions of significance of the LRDP FEIR and LRDP Amendment No. 1 Supplemental EIR. The addendum also concludes that the project is in furtherance of the Mission Bay South Plan as described in Public Resources Code 21090, which establishes streamlined environmental review procedures for such projects. The Addendum No. 6, together with the LRDP FEIR and LRDP Amendment No. 1 Supplemental EIR, constitute the environmental documentation of the Mission Bay Cancer Research Building. Addendum No. 6 determined that this project would contribute to, but not increase beyond previously analyzed levels, significant and unavoidable project-specific and cumulative impacts in some areas. These significant impacts were addressed in the LRDP FEIR and in the Findings and Statement of Overriding Considerations adopted by The Regents concurrent with the approval of the LRDP in January 1997.

In conformance with the 1996 LRDP Mitigation Monitoring Program, mitigation measures to reduce the project's contributions to significant effects have been incorporated into the project. Project-specific monitoring of the implementation of all applicable LRDP FEIR and LRDP Amendment No. 1 Supplemental EIR mitigation measures will be performed during the design, construction, and operation of this project and reported on in the LRDP EIR monitoring program.

Findings

The Findings discuss the project's impacts, mitigation measures, and conclusions regarding approval of this project in conformance with CEQA.

Vice Chancellor Barclay and Assistant Vice Chancellor Wiesenthal presented slides of the project.

Regent Hopkinson stated that the part of the building that is on the corner of Third Street was very attractive. She was less enthusiastic about the base of the building, a solid wall at the pedestrian level which she described as unwelcoming. She was concerned also

about the scale of the pieces of travertine tile and the dated style of the windows and sun screens on the laboratory side, and she noted that the building lacks a cornice. Mr. Wisenthal responded that the ground floor is a design challenge at every laboratory in Mission Bay because the buildings cannot go below grade. The support spaces have to be on the ground floor, with the main floor above. He hoped that the base would be perceived as unobtrusive and attention would be drawn to the entrances. He observed that the travertine pieces were larger than brick-sized.

Although Senior Vice President Mullinix disagreed with Regent Hopkinson about the appearance of the ground floor, he acknowledged that the back of the building could be enhanced. Regent Hopkinson asked that the UCSF sign be enhanced in some way, also, and that planting at ground level be considered.

Vice Chancellor Barclay noted that if the campus is successful in satisfying the Committee's concerns about the design in the near term, a formal approval was still needed for the project to remain on schedule. Regent Hopkinson moved approval of the item subject to receiving acceptable modifications.

The motion was duly seconded, and the Committee approved the President's recommendation as amended.

14. **ADOPTION OF FINDINGS AND APPROVAL OF DESIGN, HOPKINS PARKING STRUCTURE, SAN DIEGO CAMPUS**

The President recommended that, upon review and consideration of the environmental consequences of the project as indicated in the 2004 UC San Diego Long Range Development Plan Environmental Impact Report (LRDP EIR), the Committee:

A. Adopt the Findings and Mitigated Monitoring Program.

B. Approve the design of the Hopkins Parking Structure, San Diego campus.

[The LRDP EIR, Findings, and Mitigated Monitoring Program were mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

It was recalled that in May 2004, the Chairman and the President approved the Hopkins Parking Structure, San Diego campus, for inclusion in the 2003-2004 Budget for Capital Improvements and the 2003-2006 Capital Improvements Program at a total project cost of $29,732,000, to be funded by parking reserves ($8,000,000) and external financing ($21,732,000).

In October 2004, the Office of the President approved the appointment of EHDD of San Francisco, CA as executive architect for the project.

Project Site

The site for the facility is located in the Eleanor Roosevelt College area directly north of the Thurgood Marshall College. It is bounded on the north by a parking lot, on the east by Hopkins Drive and the Park Reserve, on the south by Voigt Drive, and on the west by the Social Sciences Building. The site, which slopes evenly from a high point at the west downward to Hopkins Drive, is consistent with the land use designation in the 2004 Long Range Development Plan.

Project Design

The Hopkins Parking Structure will provide 1,418 parking spaces in 425,800 gsf. A small ancillary retail-commercial area of 1,000 asf is provided to enhance street level aesthetics adjacent to the primary pedestrian entrance. The rectangular structure is comprised of three 90-degree parking bays, one of which serves as the ramp system. The structure is built into the steeply sloping site in order to minimize its perceived size. It has six levels cut into grade at the western edge of the structure and two levels below grade at the east. With only one level above existing grade at the west side, the structure is designed to not obstruct eastward views to the Grove and mountains from the Social Sciences Building and Ridgewalk.

The primary vehicular entrance is from Hopkins Drive on the east, and the secondary entrance is from Voigt Drive on the south. The parking structure's primary pedestrian entrance is situated at the corner of Voigt Drive and Hopkins Drive. A second accessible pedestrian entrance is located at grade at the northwest corner of the structure. This entry point provides handicapped access to Ridgewalk and directly serves the handicapped parking for the facility.

Cast-in-place concrete provides the most cost effective and durable structural system. The wall system incorporates multiple openings to increase the portions of the garage that can be naturally ventilated. The concrete structure is aesthetically enhanced with a colored architectural mesh screen.

The project will incorporate those sustainable features possible in a minimal parking structure. Heat is minimized by putting more than 50 percent of the parking underground and using shade trellises on the top deck

The UC San Diego Design Review Board has reviewed and approved the design of the Hopkins Parking Structure in accordance with University policy. An independent cost estimate and seismic review are complete. The Office of Facilities Design and Construction will manage the project. Independent testing agencies will be used as necessary. The Assistant Vice Chancellor and Campus Architect, Facilities Design and Construction, will perform project oversight.

Environmental Impact Summary

An Environmental Impact Report has been prepared for the San Diego Long Range Development Plan, and the Hopkins Parking Structure was evaluated in the Volume 3 of the LRDP EIR at a project level. The 2004 LRDP EIR was certified by The Regents on September 23, 2004.

On August 1, 2003, the University released a Notice of Preparation (NOP), including an Initial Study, announcing the preparation of a Draft EIR and describing its proposed scope. A revised NOP was released on December 5, 2003, to acknowledge that the potential environmental effects of the LRDP and the proposed Rady School of Management, San Diego Supercomputer Center Expansion Project, and the Hopkins Parking Structure would be considered in a single EIR. The revised NOP was circulated to responsible agencies and interested groups and individuals for 30 days ending January 7, 2004.

The University issued the Draft EIR on May 25, 2004 and circulated it for public review and comment for a 45-day period ending on July 9, 2004. Because a few groups and individuals asked for additional time to provide input, the comment period was extended to July 23, 2004. A public hearing was held June 14, 2004. Written comments were received from 12 agencies, 14 organizations, and 26 private citizens. In addition, comments were received from 10 persons at the public hearing. The letters and the public hearing transcript are included in the Final EIR. No substantial issues were raised by the public with regard to the Hopkins Parking Structure project.

The Final EIR for the Hopkins Parking Structure analyzes the project impacts in fourteen areas that would result from development of the program. Identified environmental impacts were mitigated to a level below significance. The Final EIR includes a variety of mitigation measures to address project impacts. The Final EIR is accompanied by a Mitigation Monitoring Program to assure that all mitigation measures are implemented in accordance with CEQA.

Findings

The Findings discuss the project's environmental impacts, mitigation measures, mitigation monitoring program, and alternatives.

Vice Chancellor Woods and Assistant Vice Chancellor Hellmann presented slides of the project.

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

15. **CERTIFICATION OF THE ENVIRONMENTAL IMPACT REPORT, AND APPROVAL OF DESIGN, MANAGEMENT SCHOOL–PHASE 1, SAN DIEGO CAMPUS**

The President recommended that, upon review and consideration of the environmental consequences of the proposed project as indicated in the Long Range Development Plan Environmental Impact Report (LRDP EIR), the Committee:

A. Certify the Environmental Impact Report (Refer to Vol. 3 of the UCSD 2004 Long Range Development Plan Environmental Impact Report).

B. Adopt the Mitigation Monitoring Program and Findings.

C. Approve the design of the Management School–Phase 1, San Diego campus.

[The LRDP EIR, Mitigation Monitoring Program, and Findings were mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

It was recalled that in May 2004, the Regents approved the Management School–Phase 1, San Diego campus, for inclusion in the 2003-2004 Budget for Capital Improvements and the 2003-2006 Capital Improvement Program at a cost of $31,417,000, to be funded from private gift funds ($31,057,000) and campus funds ($360,000).

In August 2004, the Office of the President approved the appointment of Ellerbe Becket of Minneapolis, MN, as executive architect for the project.

Project Site

The site for the facility is located in the North Campus neighborhood west of Ridgewalk and the RIMAC playing fields, north of Eleanor Roosevelt College, and east of Scholars Drive North. The building is situated along the north edge of the proposed Wedge open space landscaped pedestrian zone on a site designated for academic land use.

Project Design

The Management School–Phase 1 will provide approximately 50,000 asf of space within a total area of approximately 83,333 gsf of new construction. The facility is roughly L-shaped to best use the site and allow for future logical expansion of Phase 2. Phase 1 and Phase 2 will create an open interior courtyard with pedestrian walkways, landscaping, and outdoor seating areas. A paved pedestrian path along the south edge of the site will connect existing student parking and future housing with portions of the campus to the east.

The building has four stories with a partially below-grade first floor housing four-tiered classrooms, a courtyard, and a café. The second floor houses the student career services center, student business center, multipurpose rooms, and student commons. The third floor contains faculty and administrative offices and classrooms. The fourth floor has the Executive Education suite, Dean's suite, and faculty and administrative areas. Phase 2

of the project will add similar space types and be physically connected to Phase 1 at each floor.

A braced steel structural frame has been selected as the most cost effective and flexible structural system. Exterior walls are a combination of curtain wall panels, plaster, cut stone, and a high-density composite panel system. An independent cost estimate has been completed, and an independent seismic review is in process. The Office of Facilities Design and Construction will manage the project, using independent testing agencies as necessary.

Sustainability considerations include the use of recycled materials for both exterior and interior finishes, architectural design which provides for 75 percent of spaces with natural light, and water efficient landscaping. The building energy systems are designed to outperform the California Energy Code by 20. The project will comply with the University of California Policy on Green Building Design and Clean Energy Standards and the Presidential Policy for Green Building Design and Clean Energy Standards.

Environmental Impact Summary

The Environmental Impact Report for the San Diego campus Long Range Development Plan comprises three volumes. The first addresses the impacts of the physical developments of the proposed LRDP, the second contains associated technical appendices, and the third addresses the tiered project level impacts of the proposed Management School–Phases 1 and 2, the San Diego Supercomputer Center Expansion, and the Hopkins Parking Structure, which are three projects proposed for immediate implementation under the LRDP.

On August 1, 2003, the University released a Notice of Preparation (NOP) including an Initial Study announcing the preparation of a Draft LRDP EIR and describing its proposed scope. A revised NOP was released on December 5, 2003 to acknowledge that the potential environmental effects of the LRDP and the proposed Management School–Phases 1 and 2, the San Diego Supercomputer Center Expansion Project, and the Hopkins Parking Structure would be considered in a single EIR. The revised NOP was circulated to responsible agencies and interested groups and individuals for a 30-day review period ending January 7, 2004.

The Draft EIR was issued on May 25, 2004 and circulated for public review and comment for a 45-day period. Because a few groups and individuals asked for additional time to provide input, the comment period was extended to July 23, 2004.

Key environmental issues of concern were raised by the public on the content of the LRDP EIR; however, the public did not raise substantial environmental issues related to the Management School project. All comments and responses are included in the EIR. The LRDP Environmental Impact Report concluded that the project would contribute to cumulative, significant, and unavoidable impacts on air quality. All other impacts can be mitigated to less that significant implementation of LRDP EIR mitigation measures.

On September 23, 2004, The Regents approved the San Diego campus 2004 LRDP and certified the LRDP EIR, including Volume 3, which contains project-level impact analyses for Management School-Phase I and II.

Findings

The Findings discuss the project's impacts and associated mitigation measures.

Vice Chancellor Woods and Assistant Vice Chancellor Hellmann presented slides of the project.

In response to a question asked by Regent Johnson, Assistant Vice Chancellor Hellmann reported that he was investigating the weather resistance of one of the wood products that was proposed for use on the exterior of the building. If it is determined that it will not withstand the salt air, a product of a similar color will be found. Regent Hopkinson was concerned that water would affect the color of any wood product.

In response to a question by Regent Anderson, Mr. Hellmann reported that, although this design does not incorporate solar panels, the campus is considering a number of alternatives to be used to make its buildings energy sustainable.

Regent Hopkinson noted that there was a massive wall within the design. She suggested findings ways to miminize its scale.

Regent Hopkinson moved approval of the President's recommendation, contingent on a reevaluation of the wood product. The motion was duly seconded, and the Committee approved the President's recommendation as amended.

16. **JOSEPH EDWARD GALLO RECREATION AND WELLNESS CENTER, MERCED CAMPUS**

It was recalled that the 1.38-acre site for the Joseph Edward Gallo Recreation and Wellness Center is located in the southwest region of the Phase 1 campus, between the Student Housing buildings to the southwest and the Kolligian Library to the northeast. The project site is consistent with the campus 2002 Long Range Development Plan. The cost is estimated to be $11.2 million.

The building is designed to contain 24,985 asf within a total area of 35,690 gsf and will include three general space types: recreation; wellness (clinical and education); and administrative. The project places recreation and administration uses on the ground floor and wellness on a partial second floor.

It is anticipated that design approval will be sought at the Committee's January 2005 meeting.

Vice Chancellor Desrochers and Campus Architect Smith presented slides of the project. Mr. Smith reported that there is an affinity among the buildings in the area. The character of the Gallo Center is similar to that of the commons facilities, which are just down the street. There are three primary entries to the building. The gym facility is a multi-purpose space that is set up not only for hard-court sports but also to accommodate gatherings such as banquets and convocations of up to 750 people. The second level houses the wellness center, which will accommodate clinical examinations, minor treatments, and holding for transport for serious injuries and illnesses. It is also a counseling center and thus has a separate entrance.

Mr. Smith noted that the building has a two-story portion in the center, an arcaded entry around the weight room, and high bay space for the gymnasium. The Main Street elevation is glassy and contains the entry. Metal roofs provide a three-dimensional form and sport a cupola that will bring in light during the day and will glow from the lobby lights at night.

Regent Johnson admired the design and envisioned the center as a place where students will feel welcome. She believed it was a skillful application of a relatively small budget.

Regent Hopkinson agreed that the design was attractive. She asked about the roof color. Mr. Smith responded that the color of the center's alloy steel, polymer-coated roof is a warm grey. Roofs in the campus housing projects are cement tile of a similar color. Regent Hopkinson noted that the cement tile, which was a substitution to contain costs after the Committee had approved the design, should have been shown to the Committee.

Regent Montoya asked whether students would be expected to vote on a fee for the project. Vice Chancellor Desrochers explained that, as the campus was yet without students, the fee had been approved in advance by The Regents. The building is funded by a gift from the Gallo Foundation, a gift from the Mary Stuart Rodgers Foundation, other gifts, and a loan from the Office of the President to be repaid from student fees. The fee is $292 per year, of which $220 is for the debt service and the remainder for the recreational activities.

Regent-designate Rosenthal observed that there did not appear to be spaces within the center that could be partitioned so as to accommodate athletic activities simultaneously. Ms. Desrochers commented that the project was a first step that would be followed by a second phase within five years.

Regent Hopkinson received a consensus from the Committee that the design was acceptable.

The meeting adjourned at 2:35 p.m.

Attest:

Associate Secretary