The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
July 17, 2012

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

Members present: Regents De La Peña, Kieffer, Makarechian, Rubenstein, Ruiz, Schilling, Stein, and Zettel; Ex officio member Yudof; Advisory member Anderson; Staff Advisors Barton and Smith

In attendance: Regents Lozano and Newsom, Regent-designate Feingold, Faculty Representative Powell, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Vice President Lenz, Chancellor Block, and Recording Secretary McCarthy

The meeting convened at 2:50 p.m. with Committee Chair Makarechian presiding.

1. **PUBLIC COMMENT PERIOD**

Committee Chair Makarechian explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following persons addressed the Committee concerning the items noted:

A. Mr. Jonathan Ly, fourth-year UC Merced student and vice chair of the University Affairs Committee of the University of California Student Association (UCSA), spoke in favor of increasing opportunities for student input and transparency regarding matters before the Committee on Grounds and Buildings Committee. He stated that many students consider the proposed Luskin Conference and Guest Center to be unnecessary and would like more information about other possible uses of the Luskins' gift. He noted that building plans are particularly important to students at UC Merced, since the campus needs more academic building space.

B. Ms. Raquel Morales, fourth-year student at UC San Diego and outgoing chair of the Legislative Committee of the University of California Students Association (UCSA), stated that UC San Diego students were negatively affected by the closing of the Center for Library and Instructional Computing Services (CLICS) library and expressed concern about the lack of opportunity for student input on library closures. She urged the Regents to find ways to incorporate student input.

C. Mr. Lloyd Kraal stated that he and his wife own a Mendocino County 300-acre property that has been in their family for 100 years. They live and operate a small business on the property, which is bordered on three sides by UC's Angelo Coast

Range Reserve, which he said has been developing a small facility in this very remote area. A cluster of classrooms, a science center, and some maintenance buildings were built in 2005. Since then, Mr. Kraal said that he has had problems with traffic, speeding vehicles, trash, people trespassing on his property, and animals being hit by vehicles. Most of the trespassers are affiliated with UC. Mr. Kraal stated that he owns the land on both sides of the two unpaved roads leading to the UC property and is responsible for maintaining the areas alongside the roads.

D. Mr. David Greenberg, an alumnus of UCLA School of Law and an attorney with McKenna, Long and Aldridge, stated that the firm was engaged by Save Westwood Village to examine issues around the proposed Luskin Conference and Guest Center. Mr. Greenberg expressed his view that development of the Luskin Center held three significant financial risks: unrelated business income tax, transient occupancy tax, and the limitations of tax-exempt bond financing. He urged the Regents to explore alternatives, such as development of a non-residential conference center.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of March 28, 2012 were approved.

3. APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO CALIFORNIA ENVIRONMENTAL QUALITY ACT, CHAO COMPREHENSIVE DIGESTIVE DISEASE CENTER EXPANSION, IRVINE CAMPUS

The President recommended that, upon review and consideration of the environmental consequences of the proposed Chao Comprehensive Digestive Disease Center Expansion project, the Committee on Grounds and Buildings:

A. Find the project categorically exempt under the California Environmental Quality Act.

B. Approve the design of the Chao Comprehensive Digestive Disease Center Expansion project, Irvine campus.

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Makarechian stated that this item involved the expansion of the Chao Comprehensive Digestive Disease Center (Center) at UC Irvine. Vice President Lenz stated that the item recommended two actions: to find the project categorically exempt under the California Environmental Quality Act (CEQA) and to approve the project design. The Center specializes in diagnostic screening and interventional endoscopic treatments for patients with complex gastrointestinal problems. Since 2003, the Center has occupied 8,407 assignable square feet (asf) on the first and third floors of Building 22C. This item requested approval of the construction of 6,050 asf of expansion space and the renovation of 6,195 asf of existing space.

Regent Rubenstein asked why the cost of the project had risen 50 percent over the budget in the Irvine campus' *2011-2012 Capital Financial Plan.* He noted that the increase in cost was attributed to the expansion and equipping of the third floor of Building 22C, but that the third floor would house only a small part of the project. UC Irvine Vice Chancellor Wendell Brase explained that the third floor would be expanded a good deal because of the step-back design of the building; the amount of space renovated would be small, but the largest portion of the new construction would also be on the third floor. UC Irvine Medical Center Design and Construction staff member Leon Roach stated that the project would add 2,000 gross square feet (gsf) to the first floor, 4,000 gsf to the second floor, and 6,000 gsf to the third floor.

Faculty Representative Anderson asked about the anticipated life of the building and whether there were any seismic concerns, given that the existing building is 26 years old and the new construction would add weight to the building. Mr. Brase responded that the structure was originally designed to support the weight of three full floors, and that the current project would improve the building's seismic performance. The original step-back design of the upper floors was an inefficient use of the site's space, and the expansion of the medical center has necessitated more efficient use of available space.

Regent De La Peña asked how the cost per square foot for the project was calculated. Mr. Brase responded that the calculation was based on the project's gsf. The project would also have costs associated with phasing around ongoing clinical operations. Regent De La Peña asked whether another location for the project was available at a lower cost. Mr. Brase stated that other alternatives were considered in the business case analysis, and that the proposed expansion is necessary because of the increase in patients at the facility. Mr. Lenz stated that the Center's patient load has increased 16 percent in the past year, with a projected continuing significant demand for the facility's services based on demographics. Regent De La Peña asked for further clarification of the derivation of the cost per square foot. Mr. Lenz said he would meet with Regent De La Peña to explain how the cost per square foot for this project was calculated. Associate Vice President Deborah Wylie stated that the construction cost per square foot was calculated based on 27,000 gsf.

Committee Chair Makarechian stated that each Committee member had been provided with documentation prepared pursuant to CEQA and had considered the President's recommendation in regards to the proposed action. The Committee members had reviewed and considered the CEQA documentation, including all comments received in writing or presented to the Committee at the current meeting.

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

4. **APPROVAL OF THE BUDGET, APPROVAL OF EXTERNAL FINANCING, LUSKIN CONFERENCE AND GUEST CENTER, LOS ANGELES CAMPUS**

The President recommended that:

A. The 2011-12 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Los Angeles: Luskin Conference and Guest Center – preliminary plans, working drawings, construction, and equipment – $162,425,000, to be funded from external financing ($112,000,000), gift funds ($40,000,000), housing reserves ($7,225,000), and campus funds ($3,200,000).

B. The scope of the Luskin Conference and Guest Center shall provide approximately 294,000 gross square feet, which is planned to include: a conference facility with meeting space and guest rooms, a parking garage for resident guests, a campus catering kitchen, and improvements to the adjacent traffic turnabout and pedestrian areas in Gateway Plaza at the main entrance to campus.

C. The President be authorized to obtain external financing not to exceed $112,000,000 to finance the Luskin Conference and Guest Center project. The President requires that:

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

(2) As long as the debt is outstanding, general revenues from the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

D. The President be authorized to obtain standby financing not to exceed $35,000,000 for the project, subject to the following conditions:

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

(2) As long as the debt is outstanding, general revenues from the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

E. The President be authorized to execute all documents necessary in connection with the above.

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Vice President Lenz stated that this item recommended approval of the budget and external financing for the construction of the 294,000 gross square feet (gsf) Luskin Conference and Guest Center (Luskin Center) at UCLA, on the current site of Parking Structure Six. The project includes four components: a 242,000 gsf academic conference center with 70,000 gsf of conference facilities and 250 guest rooms, a 42,000 gsf parking garage with 125 parking spaces for hotel residents, a 10,000 gsf operationally independent catering kitchen to replace an older facility on the northwest campus, and improvements to the adjacent traffic turnaround and pedestrian areas in the Gateway Plaza. Mr. Lenz stated that the Regents were being asked to approve the project budget of $162,425,000, with external financing of $112 million, $40 million in gift funds, $7.2 million in housing reserves, and $3.2 million in campus funds. The item also requested approval of $112 million in external financing and $35 million in standby financing. Mr. Lenz thanked the UCLA campus staff for their responsiveness in resolving questions that had arisen when this project came before the Committee in March. Committee Chair Makarechian thanked Mr. Lenz and the UCLA staff for their cooperation in responding to the Committee's questions.

Chancellor Block stated that this item requested approval of the project budget and external financing for the Meyer and Renee Luskin Conference and Guest Center; the project would be brought back to the Committee in September for final approval of the project's design and environmental documents. He recalled that the Committee had deferred action on this item at its March meeting in order have additional time to review the business case analysis. Consequently, the project had been reexamined to provide additional clarity about its goals and operations. The Chancellor expressed his view that the project has a solid business plan and is the best alternative for UCLA's goals to foster the exchange of ideas, contribute to the preeminence of UCLA as one of the world's great research universities, and allow UCLA to compete with other top-tier institutions for major academic conferences.

Chancellor Block said that UCLA faculty had noted a shortage in state-of-the-art conference facilities on campus. He also expressed his view that inclusion of guest rooms in the Luskin Center is essential to carry out its purpose. The ability of conference attendees to stay on campus would provide a more productive meeting environment, more opportunities for informal contact with other attendees and the campus community, and better access to other campus amenities. Chancellor Block stated that the case for a residential facility is strengthened by the fact that there is a shortage of hotel rooms in West Los Angeles. The campus expects the Luskin Center to be used not only for academic conferences, but also by UCLA Medical Center patients and their families, visiting scholars, faculty and staff from other institutions, international visitors and dignitaries, parents, alumni, emeriti, and donors, all in furtherance of UCLA's academic mission. Development of the Luskin Center would also permit expansion of executive education and continuing professional development programs conducted by UCLA's professional schools and the University Extension. The Luskin Center will not serve guests lacking an appropriate affiliation with the University and therefore will not compete with local private hotels for visitors not affiliated with UCLA.

Chancellor Block stated that the Luskin Center was made possible by a $100 million gift the prior year from Meyer and Renee Luskin. One-half of this gift endows the Luskin School of Public Affairs, which houses UCLA's public studies, social welfare, and urban planning programs. Of the remaining funds, $40 million will support development of the Luskin Conference and Guest Center and $10 million will endow its academic programs. Chancellor Block emphasized that no State funds or student tuition would be used to design, construct, equip, or operate the Luskin Center; instead, the Center would be funded by the Luskins' gift and new revenues generated from the Center's operation.

Chancellor Block addressed the question raised during the discussion at the March meeting of whether the campus had adequately considered buying an existing local hotel or partnering with a private third party to construct a nonresidential conference center. He stated that these options had been thoroughly examined, and the campus concluded that they would not meet UCLA's academic needs or objectives.

In addition, the Committee had asked whether the $40 million gift from the Luskins could be used to construct an off-campus conference center or to purchase an existing hotel. Chancellor Block responded that the campus' binding gift agreement with the Luskins stemmed from a solicitation specifying an on-campus location. The Luskins directly addressed this issue in a recent letter to Chairman Lansing, stating that locating the center off-campus would violate the intent and sprit of their gift and would reduce the intended benefits to UCLA.

Chair of the UCLA Division of the Academic Senate Andrew Leuchter stated that, after its Council of Planning and Budget held hearings, and reviewed plans and financial projections, the Senate concluded that the Luskin Center has the potential to significantly enhance UCLA's academic mission, would be a valuable addition to the campus' physical resources, and will benefit a wide spectrum of users. The proposed location in the center of campus would make the Luskin Center accessible to a wide range of academic departments from the humanities and social sciences to the medical enterprise. He reported the Senate's view that questions about the project's financial model and the decrease in the number of campus parking spaces have been convincingly answered.

Dr. Leuchter addressed the academic value of having the Luskin Center in the heart of the UCLA campus. Currently, facilities for conferences are spread across the campus and there are no hotels with adequate meeting rooms within several miles. Any hotels used for academic conferences must be affordable; local hotels are often prohibitively costly for attendees. Programs could be supported by the $10 million endowment fund also provided by the Luskins' gift. The Academic Senate believes the endowment to be a major positive feature of the proposal, since programs that might have difficulty staging a conference could receive support. The endowment will bring the use of the Luskin Center within the reach of every department on campus. The Luskin Center would solve a significant problem for UCLA, by providing state of the art meeting facilities and hotel space in a single location and would enhance UCLA's reputation internationally. Dr. Leuchter expressed the hope of the UCLA Division of the Academic Senate that the Regents would approve the project.

UCLA Vice Chancellor Steve Olsen displayed a map showing the location of the proposed Luskin Center in the heart of the UCLA campus, in a location currently occupied by Parking Structure Six. The adjacent Gateway Plaza area would also serve as a hub for campus transportation. The scope of the project includes the demolition of Parking Structure Six and the installation of utilities; no relocation of utilities would be required. The Luskin Center would be seven stories, with the two lower floors devoted to conference facilities and the upper five floors to hotel accommodations; one below-grade level would provide 125 parking spaces. The project would also include an operationally independent catering kitchen, since the existing UCLA catering kitchen needs to be expanded.

Mr. Olsen stated that three other on-campus locations had been considered in depth for the project, but ultimately rejected. The location of the existing Faculty Center was proposed, but then abandoned because of concerns of UCLA's neighbors and faculty. A site on Le Conte Avenue at the current location of the Center for Health Sciences parking structure was rejected because of its peripheral location. The site of the existing James West Alumni Center was rejected because of the cost of utility relocation and concerns about the building layout that site would require. The possibility of buying an existing off-campus hotel was investigated, but it was determined that none of the four nearby hotels had adequate meeting space. In addition, attendees would have to be shuttled from the off-campus site to meeting rooms and other venues on campus. Another alternative of engaging a third party to develop a conference center on Lot 36 was rejected because the objective of the project is to bring conference attendees to the heart of the campus; Lot 36 is located one mile from the center of campus. Conference attendees would have to be transported through Westwood Village to events on campus, adding expense and inconvenience, as well as increasing local traffic. Lot 36 also lacked the advantages of UCLA's existing infrastructure. Mr. Olsen stated that conference centers generate revenue through room rentals; developing a conference center without hotel rooms would not be financially viable.

Turning to financing for the project, Mr. Olsen stated that the budget for the Luskin Center would be $152 million, including the $40 million fully pledged gift from the Luskins and $112 million in external financing, consisting of a combination of tax-exempt and taxable bonds. The $80 million in tax-exempt bonds would have a feasibility rate of six percent, substantially above market. Sufficient financing is currently on hand through taxable bonds that have already been sold. The entire project could be financed using taxable securities at 4.95 percent. Mr. Olsen characterized the pro forma for the project as extremely conservative.

UCLA Administrative Vice Chancellor Jack Powazek stated that the proposed Luskin Center would have a positive cash flow from year one. The Luskin Center would add only 250 hotel rooms to the 11,000 existing rooms in the West Los Angeles region, which has had an occupancy rate of 81 percent for the past 12 months even though the economy has been far from robust. Approximately 220 hotel rooms in the area have been lost, primarily to condominium conversion. Mr. Powazek expressed his view that the Luskin Center is an economically viable project that would meet the needs of the campus.

Regent Zettel expressed her support for the goals of the Luskin Center. She asked whether 125 parking spaces would be sufficient for a 250-room hotel. She also asked for more information about how the traffic and campus transportation would be affected by the improvements to the Gateway Plaza area. Mr. Powazek responded that the 50 percent ratio of parking spaces to hotel rooms is fairly standard, particularly given that there would be no employee or permit parking in the facility. In addition, 8,000 other on-campus parking spaces are within walking distance. The campus anticipates that the improvements to the Gateway Plaza will enable increased public transportation to the area. A Los Angeles International Airport shuttle, now located at the edge of campus, would be brought closer to the Luskin Center. A valet service could be used for large events.

President Yudof expressed his support for the project, which he characterized as well-planned and important for the campus. He stated that the convenience of having hotel rooms at the conference center would be a major attraction. The President noted that he had spoken to Meyer Luskin who said that his gift was specifically linked to this project as proposed. President Yudof expressed his view that the Luskins' agreement with the University should be honored. In addition, the current low interest rates make the financing attractive.

President Yudof stated that his highest building priority is classroom space at UC Merced, but without a gift or an income stream to support it, and lacking State support, this would require incurring debt. In contrast, the Luskin Center would be self-supporting, and President Yudof urged support for the project.

Regent Kieffer asked for clarification of the source of the anticipated occupancy of the Luskin Center's 250 hotel rooms, and whether the proposed design is large enough. Mr. Olsen responded that the campus' demand analysis for hotel rooms in the West Los Angeles area revealed an extremely tight market, giving the campus confidence in sufficient demand. He anticipates that two-thirds of visitors would be related to academic conferences sponsored by the University. Interviews of personnel in UCLA's academic programs indicated their potential level of demand for conferences. In addition, other visitors would be University-related affiliates such as patients of the UCLA Health System and their families, individuals attending alumni events sponsored by the campus, Bruin Day participants, and prospective students and their parents. Mr. Powazek added that HVS, a global hospitality consulting firm hired by Save Westwood Village, had expressed agreement with the campus' occupancy projections in their public comments at the March meeting.

In response to Regent Kieffer's question about the appropriate size of the Center, Mr. Olsen stated that the number of hotel rooms for such facilities typically ranges from 200 to 300 rooms, so the proposed 250 rooms for the Luskin Center would be in the middle of that range.

Regent Kieffer expressed his support for the project, adding that his initial questions about the project's finances had been answered and that the Luskin Center would be a great asset to UCLA's academic programs.

Regent Ruiz also noted his support for the project, which he said would add great value to UCLA, to the University as a whole, and to the State of California. He thanked Mr. and Mrs. Luskin for their support and their visionary proposal.

Regent Newsom thanked the campus for its presentation, which he said was helpful in answering questions that had arisen at the March meeting. He acknowledged concerns of the surrounding community, and asked if the Luskins had specifically linked their gift to the project as currently proposed. Chancellor Block responded that the Luskins envisioned an on-campus residential conference center. Regent Newsom asked why any off-campus sites would have been considered, if the gift was linked to an on-campus site. Committee Chair Makarechian stated that the Luskins' intent had been made more clear to the Committee since the March meeting. President Yudof agreed that the Luskins' gift is linked to the project as currently proposed. Mr. Lenz added that one due diligence requirement adopted as a result of the Regents' implementation of the recommendations in the 2005 report entitled *Transforming Capital Asset Utilization and Delivery: Opportunities for Reducing Project Costs and Achieving More Program for the University's Capital Dollar* was the preparation of a business case analysis that includes examination of alternative sites.

Regent De La Peña expressed his support for the project and added that similar centers could be developed for all of UC's medical centers. He asked whether the hotel rates would vary for different groups and whether some rooms would be complimentary for some academic conference attendees. Mr. Powazek responded that the rates would vary, since conference attendees could be offered a group rate that might include meals. There is also a $10 million endowment from the Luskins to provide support for those academic departments that might not have sufficient funds to host a conference. Mr. Olsen added that academic departments would rely on their visiting academic colleagues to provide funding for their attendance, sometimes through grants, which could limit the per diem amount that could be spent on accommodations. A subsidy from the endowment could be of assistance in such situations. A process would be established by which UCLA's faculty would determine which specific events would be eligible for subsidies from the endowment.

Staff Advisor Smith stated that the proposed Luskin Center could be indirectly beneficial for UCLA staff, who must deal with the practical consequences of the current lack of sufficient conference space. The added meeting space would increase the campus' operational efficiency.

Regent Stein expressed appreciation for the generosity of the Luskins in creating an endowment to support conferences and asked if they might be amenable to endowment funds being used to subsidize student conferences. Mr. Olsen responded that he thought this might be possible since the Luskins' vision for the facility is to serve the overall needs of the University, but that the UCLA faculty would determine the specific use details. He encouraged UCLA students to engage the faculty to see whether student organizations could benefit from the Luskin Center endowment.

Regent-designate Feingold observed that the financing includes using $7.25 million in housing reserves and asked whether this would affect student housing costs. Mr. Olsen responded that this investment from housing reserves would be amortized over the life of the Luskin Center. The campus' long-term plan for student housing rates includes an annual three percent increase and the campus has adhered closely to that plan. The Luskin Center project would use housing reserves because the catering kitchen, as part of housing and hospitality services, would contribute to housing reserves.

Regent Rubenstein asked how much revenue would be lost by the removal of Parking Structure Six and how any such loss would be replaced. Mr. Powazek stated that future permit rates for faculty, staff, and students would not be affected by the project. The revenue from the 125 parking spaces in the Luskin Center would be part of the parking operation. A five dollar differential above the normal daily rate would be charged for those 125 spaces, estimated to earn $4 million in the Center's first ten years, and the overall effect of the project would be parking revenue neutral.

Committee Chair Makarechian thanked the campus for its complete presentation and for answering the Committee's questions from the March meeting, giving the Committee a much clearer understanding of the project. Generally, Committee Chair Makarechian suggested that items seeking approval for projects be brought first to the Committee as discussion items before they are brought as action items. This would allow the Committee time to understand the proposals and have any questions answered.

Committee Chair Makarechian reviewed his prior concerns about the proposed project. He had questioned the need for an on-campus residential conference center, but his discussions with Chancellor Block and other campus personnel had shown that the project is crucial to UCLA's development. If this project is successful, the model could be repeated on other campuses. Discussions since March had shown the benefits of developing the Luskin Center on campus, particularly since the Luskins clearly envisioned the Center in the heart of the campus and their gift would give the University $40 million in equity in the project. Additionally, the Center would be built on land already owned by the University. Regarding questions about the proposed number of hotel rooms in the project, Committee Chair Makarechian expressed his opinion that the Luskin Center as proposed would contain too many hotel rooms and not enough conference space. He stated that this could be discussed when the design is brought before the Committee for approval. Regarding the financial projections, Committee Chair Makarechian stated that visitors would have to stay a few miles from the campus to find rates comparable to those proposed for the Luskin Center, an unattractive proposition given the traffic congestion in the area. Expressing his support for the project, Committee Chair Makarechian requested brief updates from Mr. Lenz at every other meeting on the progress of this project and whether its revenue/cost projections were being met.

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

5. **UPDATE ON THE UNIVERSITY'S CAPITAL PROGRAM**

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Vice President Lenz stated that progress has been made by the Office of the President in implementing the recommendations, formally adopted by the Regents in May 2010, stemming from the 2005 report *Transforming Capital Asset Utilization and Delivery: Opportunities for Reducing Project Costs and Achieving More Program for the University's Capital Dollar*. Those recommendations included: (1) ownership and accountability for capital asset utilization, delivery, and performance; (2) a capital planning and design-making process based on formal business case analysis; (3) a shorter, simpler capital project process; (4) pursuit of a more robust, more flexible contracting environment; and (5) development of systemwide building and project metrics, standards, and data. Mr. Lenz added that subsequent related initiatives have included a process to provide the Regents with timely opportunities to address material changes to project budgets and scope; increased reporting for high-risk projects; and the establishment of an Office of the President/Campus Capital Program Leadership Forum, chaired by Mr. Lenz.

Mr. Lenz stated that the Leadership Forum, convened at least twice a year in conjunction with the campuses, enables important discussions regarding increasing the efficiency of the University's capital facilities projects, best practices, and campus priorities for future projects. Under the simplified Delegated Process for Capital Improvement Projects, 59 approval actions have been reviewed in the past 20 months. Nearly all of these projects were reviewed, verified, and routed back to the campuses for the chancellors' approval within 15 working days. As of January 1, 2010, a five-year pilot program was initiated to obtain best value contracting for all campuses. The campuses complete business case analyses for all projects of at least $10 million. The Office of the President's Capital Programs Institute conducted 22 training sessions in the prior year for 1,142 campus attendees on subjects such as project management in the UC environment, best value contracting, and job order contracting. Mr. Lenz stated that his office also initiated a communication system with the campuses to monitor projects of high interest because of issues such as change in scope, budget, or schedule, dependence on gift funding not yet in hand, high community interest, particular environmental concerns, or high technical complexity.

Mr. Lenz expressed concern that the State may not continue to support capital facility projects. Capital facility funding has been inconsistent since 2006 when voters approved a general obligation bond, from which UC received $345 million annually for two years. Since that time, UC has been dependent on lease revenue bonds, which have been inconsistent. In 2011, UC advised the State Department of Finance of its need for $1.1 billion in funding for capital facilities projects. Given the State's fiscal situation, UC prioritized $426 million for critical seismic projects and an academic building at UC Merced. However, the State did not include these projects in its budget, citing a policy that it would not fund any new capital facility projects in its 2012-13 budget. Mr. Lenz noted Governor Brown's expressed concern about increasing levels of State debt. As a result, the proposed projects must be deferred, and there is no general obligation bond to address capital facilities projects on the November 2012 ballot. Mr. Lenz expressed his view that the next opportunity for any new State funding would not be until November 2014, if a bond measure were placed on the ballot then.

Should the State continue to not fund any new capital facilities projects and with UC facing $1.1 billion in high-priority projects that normally would have been considered and at least partially funded by the State, Mr. Lenz expressed his serious concern that UC would be unable to address these projects unless alternative options from the State can be developed. His office was successful in securing a budget trailer bill that provided $134 million in State funding for capital facility projects that had already been approved by the State. Securing this funding had the benefit of protecting gifts that were associated with these projects and maintaining the cost of the projects since they did not have to be delayed.

Mr. Lenz stated that UC had a debt restructuring proposal that would have provided additional resources for the University's support budget and allowed the University to use a portion of those resources to finance the debt of some of its capital needs. However, the measure was never taken up by the Legislature; the Office of the President is still urging the Legislature to consider this proposal.

Committee Chair Makarechian asked for clarification that Mr. Lenz's comments about State funding involved only those projects that would not be self-supporting. Mr. Lenz agreed. Committee Chair Makarechian also asked what would happen to existing projects, should the State discontinue any further funding. Mr. Lenz commented on the need for the academic building at UC Merced, critical for the campus to reach a threshold of sustainability, and the seismic upgrading of Tolman Hall at UC Berkeley. Committee Chair Makarechian asked whether it would be possible to get a tolling agreement for State-required seismic corrections. Associate Vice President Deborah Wylie responded that the seismic upgrades are based on compliance with UC's seismic policy to create safer spaces for its faculty, staff, and students, rather than on State requirements. Mr. Lenz added that the Regents have been concerned with liability related to seismic issues. For instance, UC Davis' Walker Hall has been fenced off because the University cannot risk the liability of having faculty, staff, and students in that facility.

Regent Rubenstein asked what alternatives would be available if the State stops funding capital facilities projects. Mr. Lenz stated that possible future options would be discussed with the campuses at the Capital Program Leadership Forum at the end of the month. The debt restructuring proposal, under which a campus could prioritize building projects in relation to the campus' need for support funding, would be one option. Also, the century bonds that UC has secured could meet a portion of capital facilities project needs. Mr. Lenz proposed that his office investigate more options and report back to the Committee.

The meeting adjourned at 4:30 p.m.

Attest:

Secretary and Chief of Staff