

The Regents of the University of California

**COMMITTEE ON GROUNDS AND BUILDINGS**

January 16, 2013

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

Members present: Regents De La Peña, Kieffer, Makarechian, Rubenstein, Ruiz, Schilling, Stein, and Zettel; Advisory members Feingold, Jacob, and Schultz; Staff Advisors Barton and Smith

In attendance: Regent-designate Flores, Faculty Representative Powell, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Vice President Lenz, Chancellor Block, and Recording Secretary McCarthy

The meeting convened at 3:55 p.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of November 13, 2012 were approved.

2. **APPROVAL OF SEWER SYSTEM MANAGEMENT PLAN, MERCED CAMPUS**

The President recommended that the Committee approve the Merced Sewer System Management Plan.

[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.]

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

3. **ANNUAL REPORT ON SUSTAINABLE PRACTICES**

[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.]

There was no discussion of this item.

4. **APPROVAL OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL AND STANDBY FINANCING, 2013-14 STATEWIDE ENERGY PARTNERSHIP PROGRAM, SYSTEMWIDE**

The President recommended that:

- A. The 2012-13 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Systemwide: 2013-14 Statewide Energy Partnership Program – preliminary plans, working drawings, construction, and equipment – \$102,312,000 to be funded from external financing (\$73,766,000), energy efficiency incentive payments from investor-owned utilities (\$20,813,000), and campus and auxiliary sources (\$7,733,000).

- B. The President be authorized to obtain external financing not to exceed \$73,766,000 to finance the 2013-14 Statewide Energy Partnership Program. The President shall require 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 Berkeley, Davis, Irvine, San Diego, San Francisco, Santa Barbara, and Santa Cruz campuses shall be maintained in amounts sufficient to pay the debt service for each campus’ respective energy projects and to meet the related requirements of the authorized financing.
- (3) The general credit of the Regents shall not be pledged.

- C. The President be authorized to obtain standby financing not to exceed \$19,948,000 for the program. The President shall require that:

- (1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
- (2) Repayment of the standby financing shall be from energy efficiency incentive payments from investor-owned utilities under the terms of the Second Amendment to the UC/CSU/IOU Energy Efficiency Partnership Program Agreement; in the event that the incentive payments are insufficient, and as long as the debt is outstanding, the general revenues of the Berkeley, Davis, Irvine, San Diego, San Francisco, Santa Barbara, and Santa Cruz campuses shall be maintained in amounts sufficient to pay the debt service for the portion of the standby financing that relates to each

campus' respective energy projects and to meet the related requirements of the authorized financing.

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

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Vice President Lenz stated that this item proposed a continuation of UC's Statewide Energy Partnership Program and would involve 180 energy efficiency projects at seven participating UC campuses for 2013-14. The Regents were being asked to approve program funding of \$102.3 million, including \$73.8 million from external financing, \$7.8 million from campus and auxiliary sources, and energy efficiency incentive payments from investor-owned utilities. Mr. Lenz stated that this program had been very successful. The proposed projects would save the University \$10.8 million per year. With annual debt service of \$7 million for the first 15 years, the net savings during that period would be \$3.8 million. After 15 years, the University would realize the full \$10.8 million in annual savings, unadjusted for inflation.

Committee Chair Makarechian expressed his understanding that this program would be funded completely by external financing, and the University would be reimbursed for a portion of the amount financed. He asked why the item would not have been presented in that manner, requesting entirely external financing, with incentive payments expected. Mr. Lenz agreed that all but \$7.7 million would be externally financed. He stated that the financing was described in a way intended to clarify that \$20.8 million, while initially externally financed, would be reimbursed by incentive payments from investor-owned utilities. Committee Chair Makarechian asked whether the incentive payments were on a contractual basis. Mr. Lenz said that the payments were part of a contract and were certain to be received. This program was started in 2007 and the utilities have been forthright in making their payments. In response to a further question from Committee Chair Makarechian, Mr. Lenz confirmed that the \$7 million in debt service included both interest and principal.

Regent Ruiz asked whether there was risk involved in this proposal. Mr. Lenz stated that these projects were to replace buildings' high-energy heating, ventilation, and air-conditioning (HVAC) systems, thus extending the useful lives of those buildings and capturing savings through the use of more efficient HVAC systems. Mr. Lenz said there was very little risk in the program.

Committee Chair Makarechian asked whether converting these systems to natural gas had been considered, since the price of natural gas had declined substantially. Executive Vice President Brostrom responded that six UC campuses have extensive cogeneration facilities. Most of these are under long-term contracts. Some have used spot markets to benefit from the decline in natural gas prices.

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

5. **APPROVAL OF THE BUDGET AND APPROVAL OF INTERIM FINANCING, TEACHING AND LEARNING CENTER FOR HEALTH SCIENCES, LOS ANGELES CAMPUS**

The President recommended that:

- A. The 2012-13 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Los Angeles: Teaching and Learning Center for Health Sciences – preliminary plans, working drawings, and construction – \$104.7 million to be funded from hospital reserves (\$55.7 million) and gift funds (interim financing) (\$49 million).

- B. The scope of the Teaching and Learning Center for Health Sciences project (the “Project”) is to construct a 120,000 gross square foot (gsf) facility to accommodate academic, teaching and learning programs of the David Geffen School of Medicine, including a 110,000 gsf medical education building for classrooms, teaching laboratories, a clinical skills center, student study and amenities space, administrative offices, and common and support space; and a 10,000 gsf enclosed access drive to existing parking in the Center for the Health Sciences.

- C. The President be authorized to obtain interim financing not to exceed \$49 million for the project. The President shall require that:

- 1. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
- 2. To the extent additional gifts are received as documented legally binding pledges, the interim financing will be converted to standby financing.
- 3. 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.
- 4. The general credit of the Regents shall not be pledged.

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

[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 this item requested budget approval of \$104.7 million to be funded from hospital reserves and \$49 million of interim financing, for construction of a 110,000 gross square foot (gsf) medical education building at UCLA.

Chancellor Block stated that the Teaching and Learning Center was a key initiative of the David Geffen School of Medicine (“School”) at UCLA, and would help secure the School’s position as one of the nation’s leading medical schools. In 2002, the School was the beneficiary of a \$200 million unrestricted gift from David Geffen; in December 2012, Mr. Geffen donated an additional \$100 million to support the School’s student scholarships. Chancellor Block said it is UCLA’s responsibility to provide up-to-date facilities for the School.

Chancellor Block explained that the Teaching and Learning Center is necessary for three reasons. First, the School must address an accreditation mandate. Following the school’s last accreditation in 2005, the Liaison Committee on Medical Education informed the Chancellor that it had identified the School’s educational facilities as an area of transition whose outcome could affect the School’s ongoing compliance with accreditation standards. The next cycle of accreditation reviews would begin the following month, and it is imperative that the School show a credible plan to address the deficiencies in its teaching facilities. Second, Chancellor Block said the School needs up-to-date teaching facilities; its current facilities are more than 50 years old and scattered in 11 different buildings on UCLA’s campus. New facilities have recently been built or are under construction at many of the nation’s top medical schools. In California, new medical educational facilities have been built in the past five years at UC Davis, UC Irvine, UC San Diego, and Stanford University. UCSF has recently extensively renovated an existing building to create a new health education center. Without modern teaching space, the Geffen School of Medicine could lose its ability to attract the best students. The School’s current space was designed when medical education consisted mainly of lectures and laboratory instruction in gross anatomy and other laboratory work involving animals, biology, and biochemicals. Since then, new pedagogic techniques have changed the physical and technological requirements for instructional space, necessitating more classrooms and fewer departmentally based laboratories. Students also need study space, lounges, office space, and space for student organizations. Third, students need to be taught in seismically safe space. This project has been an important element in UCLA’s commitment to complying with UC’s seismic safety standards. Chancellor Block said that this project had been included since 2006 in UCLA’s ten-year capital plan.

Chancellor Block stated that this project is the most cost-effective option for meeting the School’s needs. The project as currently proposed is much smaller than previous concepts. Planning efforts have produced the smallest feasible project consistent with the School’s needs. This project is proposed on a new site to reduce staging and site impacts compared with prior concepts. The project’s cost and efficiency are similar to recent comparable facilities constructed at Stanford University and UC San Diego.

Chancellor Block reported that more than half of the funds required to complete the project were in hand, because of a major investment in the project by the UCLA Health System. The campus' goal is to raise the entire project's cost from gifts.

Regent Zettel asked how this project would affect the existing Center for Health Sciences (CHS) complex. Vice Chancellor Steve Olsen responded that the CHS complex was undergoing renovation in phases; the first major phase, renovation of the South Tower, which was the old hospital, is underway. He said that future projects would address seismic issues for a number of the other structures in the complex, such as the Marion Davies Children's Center, the outpatient facility, and the old School of Medicine space. This renovation would be completed over the remainder of the decade.

Regent-designate Flores asked whether it was realistic for the campus to expect to raise all of the funds for this project through gifts. Chancellor Block responded that UCLA has been extremely successful in raising gift funds for the School. He expressed his view that this project would resonate with UCLA's donors, since it is focused exclusively on students and the community understands the importance of educating physicians. He said the campus already had commitments for half the total funding and expressed confidence in the campus' ability to raise the balance. Dr. Washington added that the proposed building would be in a prominent site and that a naming agreement could generate a large contribution.

Regent De La Peña asked whether funds for the project were in hand. Mr. Olsen responded that the funds from existing reserves in the UCLA Health System have been set aside and would be transferred into the project's accounts.

Regent De La Peña expressed his support for the project, but questioned what he characterized as the high cost per square foot. Mr. Olsen said that the construction cost per GSF, which for this project is \$655, was a good way to assess how a project's cost compares with similar projects. Two projects that most closely matched the Teaching and Learning Center were medical education buildings recently completed at UC San Diego for \$667 per gsf and at Stanford University for \$625 per gsf.

Committee Chair Makarechian stated that his meetings at UCLA with Chancellor Block and Mr. Olsen had convinced him of the need for the Teaching and Learning Center. However, he echoed Regent De La Peña's comments that the building was very expensive, given the overall cost for its usable square footage. He encouraged the campus staff to take measures to reduce the project's cost. He acknowledged that the funding would come from donors, but said those donated funds could possibly develop two buildings. He stated his view that the current project is not particularly complicated. Committee Chair Makarechian also questioned whether the projects cited as being comparable were actually similar to the Teaching and Learning Center, particularly since one of the other facilities had been built in 2007 at the high point of the real estate market. Committee Chair Makarechian stated that better values could be obtained in the current contracting environment. He asked the campus staff to return to the Committee with a report on how cost savings could be achieved through selection of contractors and

bidding processes. He expressed his view that the cost could be reduced by at least \$30 million without lowering design specifications.

Mr. Olsen responded that the University is undergoing a transition in project delivery. The campus is using best-value construction, which had previously been available only to UCSF under a pilot project. UCLA used best-value construction for a few of its most recent projects and will use it for this project. The campus also plans to use construction-manager-at-risk as an acquisition method to select the key construction team for this project. He expressed hope that these processes would extract more value from the construction process.

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

Committee Chair Makarechian noted that this was Regent Schilling's last meeting. He thanked her for her outstanding work for the Committee and Grounds and Buildings and the University.

The meeting adjourned at 4:20 p.m.

Attest:

Secretary and Chief of Staff