The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
November 18, 2015

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

Members present: Regents Davis, Makarechian, Oved, Ruiz, Sherman, and Zettel; Advisory member Schroeder; Staff Advisors Acker and Richmond

In attendance: Regent-designate Brody, Secretary and Chief of Staff Shaw, General Counsel Robinson, Executive Vice President and Chief Financial Officer Brostrom, Chancellors Hawgood, Katehi, and Khosla, and Recording Secretary McCarthy

The meeting convened at 2:45 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 September 15, 2015 were approved.

2. **ACCEPTANCE OF THE 2015-25 CAPITAL FINANCIAL PLAN**

The President of the University recommended that the *University of California 2015-25 Capital Financial Plan* be accepted.

[Background material was provided 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 introduced this item requesting acceptance of the 2015-25 Capital Financial Plan (CFP). Associate Vice President Sandra Kim explained that the CFP was presented to the Regents each year and delineates the University's multi-year program of proposed new construction, renovation, and other capital investment within the context of campus goals and needs, and systemwide priorities. The CFP demonstrates the University's efforts to align its capital program with anticipated demographics, pragmatic initiatives, and financial resources. Acceptance of the CFP would not constitute capital budget approval, as each project would be approved individually. The projects in the CFP had been reviewed on the basis of scope and budget. In developing their current capital financial plans, campuses evaluated financial opportunities and constraints, and included projects eligible for future State capital funding if available. The analysis of the CFP focuses on the current fiscal year and the upcoming five years, defined as the current term. The current term framework represents high-priority projects for UC campuses and medical centers, constituting approximately $13.34 billion. The programmatic and funding plans still under development through the remaining four years, 2021-25, are provided to give context for the current term projects. Of the $13.34 billion in the current term approximately $8.1 billion is for educational projects across the system, $2.4 billion for the medical centers, and $2.8 billion for auxiliary and student-fee supported projects, including student and faculty housing, dining, student activity, athletic, and recreational facilities, student health centers, parking and roads, and childcare facilities.

Ms. Kim displayed a slide showing current term objectives categorized by infrastructure deficiencies, facilities to address projected enrollment including the Merced 2020 Plan, facilities' modernization including technological obsolescence, and program improvements to address academic initiatives. With an aging physical plant, the University's annual facility renewal needs continue to increase.

Another graph delineated funding sources for current term projects. The University has historically relied on a wide variety of funding sources to support its capital program, including State funds, gifts, campus funds, and long-term debt financing. However, with the State providing little in the way of direct capital funding, the University has had to rely more on external financing. UC's Debt Strategy Task Force, first convened in fiscal year 2014-15, has formulated strategies regarding the University's capital funding plans and prioritization of debt resources, and is developing a debt policy to guide the University's capital market activities. In addition to $6.5 billion from external financing, $6.9 billion for current term projects would come from campus funds, gift funds, hospital and auxiliary reserves, grants, and privatized funds.

Regent Sherman asked about the effect of the financing for these capital projects on the University's credit rating, assuming the projects were approved. Executive Vice President and Chief Financial Officer Brostrom responded that the University would not be able to finance the $6.5 billion for these projects on its own credit and still maintain a AA rating. He explained that the CFP was a compilation of the priorities and needs of all UC campuses. Strategic use of UC's various liens would be beneficial, for example using the medical center lien or a limited project lien rather than the University's general credit. It would help the University a great deal if the State issued a general obligation bond, which it had not done since 2006. Regent Sherman asked about the University's current debt capacity for external financing. Mr. Brostrom responded that the University had capacity of $2.5 billion to $3 billion on its general credit, with more than that amount on its medical center lien. The University also had debt capacity through use of limited project financing for housing or dining projects. Regent Sherman asked how a project structured such as the Merced 2020 Project, with the developer carrying a portion of the debt load, would affect the University's credit rating. Mr. Brostrom commented that the Merced 2020 Project would probably not have an effect on the University's credit rating, since the facilities being developed were clearly connected with the University's core educational mission. The University is exploring other ways to structure needed development, such as recent housing at UC Irvine with a financing trust structure through which only a small portion of the financing was carried on the University's balance sheet.

Committee Chair Makarechian asked if facilities needed for recently announced enrollment increases were included in the CFP. Mr. Brostrom said the CFP included

$3.2 billion for projects connected with prior and potential enrollment. Of projects attributed to the auxiliary program categories, $2.16 billion would be for student and faculty housing. Development of sufficient on-campus housing would be crucial to facilitate increased enrollment. Committee Chair Makarechian observed that developing on-campus student housing was profitable for the University and asked why the University was not developing as much housing as possible. Mr. Brostrom responded that most UC campuses were starting new housing projects and agreed that as much housing as possible should be developed, particularly since many UC campuses are in areas with very expensive market-based off-campus housing. Some campuses have limited available on-campus land and are examining possible off-campus sites for University-developed housing. Committee Chair Makarechian noted that UC Santa Cruz or UC Santa Barbara did not have that problem and could offer student housing at 40 percent below market rates and still be profitable. Private developers should be sought to partner in development of student housing. Mr. Brostrom commented that development at UC Santa Cruz and UC Santa Barbara is limited by their Long Range Development Plans. Constraints can come from the local community or the California Coastal Commission.

Regent Zettel asked how projects on the CFP would be prioritized. Ms. Kim said that process would be driven by campus priorities. The debt component of projects would be analyzed along with the projects' merits. Mr. Brostrom added that the new debt policy being developed would allow the University to examine a project's finances from a systemwide perspective.

Regent Ruiz asked if planning for capital projects was sufficiently in advance of the need. Mr. Brostrom said that UC's more mature campuses have had the advantage of being able to plan in advance, but planning at UC's younger, growing campuses had been affected by the lack of resources during the recent fiscal crisis when UC was continuing to accept more students, but was unable to build new facilities. The University is currently at an infrastructure deficit. Regent Ruiz commented that it would be beneficial to clarify capital projects needed to accommodate increased enrollment in advance. Mr. Brostrom agreed that housing capacity would have to be developed to handle projected enrollment growth. Aggressive investment would also be needed in capital renewal and deferred maintenance.

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

3. **ACCEPTANCE OF THE 2015 PHYSICAL DESIGN FRAMEWORK, MERCED CAMPUS**

The President of the University recommended that the UC Merced 2015 Physical Design Framework be accepted.

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

Associate Vice President Sandra Kim introduced this request for acceptance of the UC Merced Physical Design Framework (PhDF), last accepted by the Regents in 2010, to align planning and design with the campus' current Long Range Development Plan (LRDP), approved by the Regents in 2009 and amended in 2013.

Campus Counsel Elisabeth Gunther explained that the PhDF was an overarching set of design guidelines for the campus consistent with the LRDP and not tied to any specific project. This PhDF update would reflect development at UC Merced over the past few years and the 2013 amendment to the LRDP. The existing UC Merced campus is located on 104 acres of its 600-acre site. That land is bounded to the north and east by 10,000 acres of preserved grassland. To the west of campus is County land, currently part of a City of Merced planning effort called the Bellevue Corridor Community Plan. Land to the south is owned jointly by the Regents and the Virginia Smith Trust (VST) and would ultimately be divided to provide both development land for the VST and more campus land for the Regents. The 2009 LRDP set forth a 355-acre area for the campus' next phase of development; in 2013, the Regents reduced the footprint of this area to 219 acres, reducing the campus' infrastructure needs. The new PhDF incorporates new development and design strategies to foster compact, sustainable, and mixed-use development. The PhDF would be used by the campus to ensure that its design decisions are in accordance with the Regents' guidance.

Regent Zettel asked whether accepting the PhDF would enable the campus to pursue more joint ventures with private developers. Ms. Gunther clarified that the amendment of the LRDP in 2013 included the creation of the campus Mixed Use district, to enable the flexible delivery of programs in buildings with mixed uses. It did not dictate whether the projects would be developed in conjunction with a private developer or not.

Regent Ruiz congratulated the campus on its growth and thoughtful planning efforts.

Committee Chair Makarechian asked how development of the required infrastructure would be phased and how many students the infrastructure was designed to accommodate. Ms. Gunther responded that the LRDP addressed enrollment of up to 25,000 students through the year 2030. Committee Chair Makarechian pointed out that infrastructure installed for the 2020 Project to accommodate 10,000 students would have to be sufficient for future development for up to 25,000 students. Ms. Gunther added that specifications for the 2020 Project require that the infrastructure be designed to connect to the subsequent phases of development in the LRDP. When the campus is further expanded after the 2020 Plan, the City would have to upgrade the capacity of gateway infrastructure services to the campus. Vice Chancellor Daniel Feitelberg added that, even during the course of the 2020 Project contract, the campus would manage the underlying infrastructure under contract with the City of Merced, notwithstanding the operations and maintenance components of the 2020 Project Agreement for the buildings. The infrastructure and central plant improvements would be managed by the University. Committee Chair Makarechian asked whether the roads developed for the 2020 Project would have sufficient capacity for the campus' future enrollment growth to 30,000 students. Mr. Feitelberg responded that the 2020 Project contractual specifications for the roads would be consistent with the campus' LRDP and the main Bellevue extension would be adequate for future development.

Committee Chair Makarechian asked why the campus had a height limit of six stories. Ms. Gunther clarified that the campus had a 120-foot height limit, roughly eight to ten stories, contained in the LRDP. That limit could be increased by the Regents. Committee Chair Makarechian questioned why the Regents would impose a height limit. Ms. Gunther commented that development reflected in the LRDP was intended to stay within the parameters of the Environmental Impact Report. The height limitation could be reconsidered when future LRDPs are developed following the completion of the 2020 Project.

Committee Chair Makarechian asked how the campus intended to reach its goal of zero waste and zero net energy. Mr. Feitelberg said that the campus would develop buildings that would reduce energy consumption. The campus' purchasing strategy would focus on renewables. Zero net landfill waste is clearly achievable through recycling and composting programs. Mr. Brostrom added that the campus currently has a one megawatt solar plant and has the capacity for up to 40 megawatts, which would be sufficient to put excess energy back into the grid.

Regent Ruiz suggested that the height limit be reconsidered as soon as possible. The campus' use of land would be critical in the future. Committee Chair Makarechian agreed. Ms. Gunther commented that the PhDF expressed a six-story design preference, but that was not a hard limit. Committee Chair Makarechian expressed his view that that the height guidelines should be changed to 120 feet.

Committee Chair Makarechian asked if the design of individual buildings in the 2020 Project would be brought to the Committee for approval. Ms. Gunther said the integrated design of all buildings and the Master Plan of the 2020 Project would be brought to the Committee at one time.

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

4. **APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, NORTH ADDITION OFFICE BUILDING, SACRAMENTO, DAVIS CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed North Addition Office Building, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Committee on Grounds and Buildings:

A. Certify the Environmental Impact Report.

B. Adopt the Mitigation Monitoring and Reporting Program and the CEQA Findings.

C. Approve the design of the North Addition Office Building, UC Davis Health System, Sacramento, Davis campus.

[The Environmental Impact Report, Mitigation Monitoring and Reporting Program, and CEQA findings were provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Associate Vice President Sandra Kim explained that the Regents had approved a total project budget of $87.5 million in September 2015 for the 130,000-gross-square-foot (gsf) North Addition Office Building, immediately north of the UC Davis Health System (UCDHS) Main Hospital in Sacramento.

Chancellor Katehi confirmed the importance of this project that would address serious seismic issues and allow for the expansion of services at the UCDHS Main Hospital, to which it would be connected. Care was taken in the design to ensure that the work would not interrupt the provision of services at the hospital.

UCDHS Chief Executive Officer Ann Rice added that this project was part of a series of projects that must be completed by January 1, 2020, to address seismic safety mandates required under Senate Bill 1953. Specifically, the North/South Wing of the Main Hospital must be upgraded to resist a major seismic event or vacated and disconnected from the adjoining Main Hospital. After much study, it was determined that it was preferable to tear down the North/South Wing and replace it with the North Addition Office Building, rather than create a new medical building. The project would provide space to relocate occupants of the North/South Wing and the nearby Housestaff Facility.

UCDHS Manager of Facilities Design and Construction Joel Swift described the project’s location. The North Addition would need to be constructed in advance of demolition of the North/South Wing and the Housestaff Facility, which contain a total of 255,000 gsf. He displayed building floor plans, with space in the six-story building planned to be as flexible as possible. Occupancy would involve many administrative functions on the lower levels, with faculty, surgery, and trauma functions on the upper levels. A design-build delivery method would be used. The Project would aim for at least a Leadership in Energy and Environmental Design Gold rating.

Regent Zettel asked who would manage construction. Mr. Swift responded that McCarthy Building Companies, Inc. had been selected as the project management team.

Regent Sherman asked if the campus had a target cost per square foot to which the project was designed. Mr. Swift responded that the campus considered comparable projects and worked with its contracting partners to develop a cost model and identify design variables that could affect the cost. The campus went through a detailed cost estimating process that was peer-reviewed. The target price for the total project including site development was about $420 million; target construction cost was approximately $390 million.

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

5. **AMENDMENT OF THE BUDGET AND APPROVAL OF CHANGE IN REPAYMENT SOURCE FOR A PORTION OF EXTERNAL FINANCING, CHS SOUTH TOWER SEISMIC RENOVATION, LOS ANGELES CAMPUS**

The President of the University recommended that:

A. The 2015-16 Budget for Capital Improvements and Capital Improvement Program be amended as follows:

From: Los Angeles: CHS South Tower Seismic Renovation – preliminary plans, working drawings, construction – $219,902,000, to be funded from external financing.

To: Los Angeles: CHS South Tower Seismic Renovation – preliminary plans, working drawings, construction – $203.29 million to be funded from external financing.

B. The President be authorized to utilize external financing in an amount not to exceed $128,953,000 to finance the CHS South Tower Seismic Renovation project. The President shall require that:

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

(2) The primary source of repayment for the external financing of $128,953,000 shall be from State appropriations. Should State appropriations funds not be available, the President shall have the authority to utilize any legally available funds to make debt service payments.

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

C. The President be authorized to utilize external financing in an amount not to exceed $31,337,000 to finance the CHS South Tower Seismic Renovation project. The President shall require that:

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

(2) As long as the debt is outstanding, general revenues of 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 utilize external financing in an amount not to exceed $43 million to finance the CHS South Tower Seismic Renovation project. The President shall require that:

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

(2) As long as the debt is outstanding, gross revenues of UCLA Medical Center 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, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

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

Associate Vice President Sandra Kim stated that this item involves the CHS South Tower, which had been completed the prior August. The UCLA Medical Center occupies a portion of the Tower's two basement floors. Since the project realized a savings of $16.6 million, this item would lower the total project cost. Also, $43 million of the external financing would be moved from the UCLA campus to the UCLA Medical Center.

Committee Chair Makarechian recalled that the project budget had been increased before the current request for a budget decrease and asked about the reasons for the prior increase. Vice Chancellor Steven Olsen explained that the cost of the structural strengthening and new windows was sharply reduced compared with the budget; the increases were from change orders related to replacement of building's infrastructure, which was found to be much more extensive than anticipated. Nonetheless, the overall project was completed $16.6 million under budget. Committee Chair Makarechian pointed out that the infrastructure improvement added value to the project.

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 AND SCOPE, JACOBS MEDICAL CENTER, SAN DIEGO CAMPUS**

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

Associate Vice President Sandra Kim introduced this update on the UC San Diego Health System (UCSDHS) Jacobs Medical Center (JMC) project on which construction began in January 2012. The JMC is contiguous to Thornton Hospital and would include new inpatient beds for general medical-surgical units, intermediate medical units, intensive care units, obstetric and neonatal care units, and new operating rooms. At a future meeting, the campus would request a budget augmentation of $80 million, consisting of a $100 million budget shortfall offset by a $20 million reduction in scope. The $80 million augmentation would be funded from $13.08 million of gift funds and $66.92 million of campus funds.

Chancellor Khosla said the campus is looking forward to the completion of the JMC, a strategic investment essential to positioning the UCSDHS to meet the challenges of healthcare reform and market demand. The current shortage of hospital beds in the San Diego area is the primary driver for completing the JMC as soon as possible. The increase in capacity would also allow UCSDHS to expand partnerships with physician groups, community clinics, employer groups, and California's health insurance exchange, as well as attract top faculty and students to UC San Diego.

UCSDHS Interim Chief Executive Officer Patricia Maysent provided context for the JMC budget shortfall. She noted that UCSDHS had decided on a strategic plan to increase its tertiary and quaternary care, and had also established some significant affiliations throughout San Diego, Imperial, and Riverside Counties. She cited some examples of such affiliations. The UC San Diego Health Physicians Network continues to grow rapidly. The UCSDHS has worked aggressively to increase its geographical footprint to secure its long-term future and to provide health care in all three counties.

Ms. Maysent reviewed UCSDHS' strong financial performance, earning slightly less than $200 million in fiscal year 2015, its most profitable year ever, with 119 days cash on hand, validating the original strategic assumptions underlying development of the JMC. UCSDHS hospitals are currently full and in dire need of more beds. Three major construction projects are underway, the JMC, scheduled to open in November 2016, the Altman Clinical and Translational Research Institute, scheduled to open on time and on budget in March 2016, and the Outpatient Pavilion, with groundbreaking scheduled for this month. The JMC would house the Pavilion for Women and Infants on its upper floors, the Pavilion for Cancer Care on its middle floors, and the Pavilion for Advanced Surgery on its lower floors.

Philanthropic giving for the JMC currently totals $144 million, exceeding the original budget for philanthropy of $130 million. At the time of scoping, the decision was made to fast-track the project, which shortened the time to opening by two years, but significantly increased costs, which were not clearly understood at the time. At the current time, the JMC is 90 percent finished; however, a budget augmentation of $80 million is needed to complete the project. A $100 million budget shortfall would be reduced by a $20 million reduction in scope, by decreasing the amount of space to be renovated in the existing Thornton Hospital. The campus received a $3.5 million philanthropic gift to expand its Cardiac Rehabilitation Program.

UCSDHS Vice Chancellor and Chief Financial Officer Pierre Ouillet confirmed that funding for the budget augmentation would consist of $13.08 million in gift funds and $66.92 million in a loan from UC San Diego campus funds, which could be externally financed at a lower cost.

Mr. Ouillet reviewed the project's prior budget augmentations. Between 2007 and 2012, the scope of the project was increased. Between 2013 and 2014, augmentations were sought to develop shelled space. The current augmentation involved a reduction in scope and would result in an increase in cost per gross square foot to $917, an amount that he said was in line with comparable projects.

Mr. Ouillet stressed the importance of determining the cause of the budget shortfall, which he said was a combination of the fast-track approach and changes in project scope. He expressed his view that the campus should have been able to more closely estimate the cost implications of the choice to fast-track the project. The campus has taken aggressive action to ensure that the project would be completed successfully and to learn from its mistakes so they would not be repeated. The campus had been inexperienced in estimating costs and effects of major changes in a project of the size and complexity of the JMC. In response, the campus has changed the entire leadership team on the project; the new lead project manager has experience with delivering fast-track hospital projects successfully for Kaiser Permanente. The campus has also increased the number of people on the project management team. Mr. Ouillet expressed his view that the project's contingency was inadequate for a fast-track project and the campus has instituted a new process based on rigorous risk analysis to establish contingencies. In addition, there was a lack of coordination between the campus' capital management and project management teams. The campus has put in place a more integrated structure. The campus would enlist a senior program manager to oversee ongoing operations. Most of the cost overrun was attributable to underestimated financing costs. A more conservative financing model would have been preferable. The campus has changed its organizational financial oversight of UCSDHS. Mr. Ouillet expressed his view that these actions would position the campus well to complete this project and for future projects.

Committee Chair Makarechian expressed frustration with the request for budget augmentation at a time when UC Health is making great efforts to reduce costs. This project must be scrutinized to determine exactly what caused the budget to be exceeded and specific corrective actions taken. He expressed his view that benchmarks for comparable projects were meaningless, because they just kept increasing. Unless the project costs were known and specified at the beginning and monitored throughout the project, contractors would attempt to escalate costs during construction. Committee Chair

Makarechian expressed his displeasure that the project's scope would have to be reduced to pay for part of the cost overruns. The requested augmentation of $80 million is a very large amount, which should be scrutinized by the Committee in detail. The campus should inform the Committee what portion of the overrun is attributable to the architect or others so that all legal remedies can be pursued by the University. The University has other uses for funds that would go to pay cost overruns. The Committee would also need assurance that there would be no further augmentations and information about the effect the requested augmentation would have on the overall financial status of UCSDHS, including its days cash on hand.

Regent Sherman expressed agreement with Committee Chair Makarechian's comments. He questioned whether $80 million would cover all costs associated with the augmentation. He said the Committee would seek contractual assurances that there would be no further augmentations. All contractors and architects should have signed off on a price to complete the project, and agree that there would be no further design changes. Regent Sherman stressed that all legal remedies should be pursued against any party responsible for cost overruns.

Regent Zettel expressed agreement with the views expressed regarding the project's financing. She noted the need for the project in the San Diego area and community support for UCSDHS.

Committee Chair Makarechian confirmed the Regents' support for the project and UCSDHS. He asked that, when the requested augmentation is brought to the Committee for approval, the Committee be provided with specific information about what legal remedies would be pursued to recover the amounts of the cost overruns from those responsible.

Committee Chair Makarechian asked for clarification of the source of repayment of the loan to UCSDHS from the campus. Executive Vice President and Chief Financial Officer Brostrom said repayment would be entirely from medical center revenues. Issuance of a medical center bond is being considered and the augmentation could be folded into that bond issue. Committee Chair Makarechian suggested seeking philanthropy to repay the augmentation.

Chancellor Khosla expressed appreciation for the Regents' comments and affirmed that lessons learned from this project would have a positive effect on UC San Diego's future design and construction projects.

The meeting adjourned at 4:20 p.m.

Attest:

Secretary and Chief of Staff