The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
May 17, 2017

The Finance and Capital Strategies Committee met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present: Regents Blum, Elliott, Kieffer, Makarechian, Schroeder, Sherman, and Zettel; Advisory members Lemus and White; Chancellors Blumenthal and Hawgood; Staff Advisor Richmond

In attendance: Assistant Secretary Lyall, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Vice President Humiston, Chancellors Block, Gillman, and Wilcox, Chief Deputy General Counsel Petrulakis, and Recording Secretary Johns

The meeting convened at 11:20 a.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 March 15, 2017 were approved.

2. **APPROVAL OF AMENDMENT #3 TO THE UC SAN FRANCISCO 2014 LONG RANGE DEVELOPMENT PLAN AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, CHILD, TEEN, AND FAMILY CENTER AND DEPARTMENT OF PSYCHIATRY BUILDING AT 2130 THIRD STREET, SAN FRANCISCO CAMPUS**

   The President of the University recommended that, following review and consideration of the environmental consequences of the proposed Child, Teen, and Family Center and Department of Psychiatry Building project, 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 Finance and Capital Strategies Committee recommend that the Regents:

   A. Certify the Environmental Impact Report.

   B. Adopt the Mitigation Monitoring and Reporting Program, and the CEQA Findings including the Statement of Overriding Considerations for the significant and unavoidable impact.
C. Approve Amendment #3 to the UC San Francisco 2014 Long Range Development Plan (LRDP) to include the project site in LRDP Chapter 9, Smaller Owned Sites.

D. Approve the design of the Child, Teen, and Family Center and Department of Psychiatry Building project, San Francisco 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.]

Chancellor Hawgood explained that the Child, Teen, and Family Center and Department of Psychiatry Building project would serve as a center of excellence in mental health, encompassing clinical care, research, and training. It would comply with UC’s Sustainable Practices Policy and would seek to achieve Leadership in Energy and Environmental Design (LEED) Gold certification. The new building was also part of UCSF’s plan to clear the Langley Porter Psychiatric Institute site on the Parnassus campus for the Moffitt Hospital seismic replacement project, which would need to be completed by 2030.

Chancellor Hawgood described the project site at 2130 Third Street, in the Dogpatch neighborhood south of the Mission Bay campus. The existing building on the site would be demolished. The new 170,000-gross-square-foot building would feature child, teenager, and adult outpatient psychiatric services and cross-disciplinary clinical and clinical research programs. UCSF anticipated that the building would house over 500 faculty and staff and approximately 260 patients and visitors each day. Parking in the building would accommodate patient parking demand only; parking for faculty and staff would be provided on the Mission Bay campus.

In 2016, UCSF chose SKS/Prado 2130 Third LLC to develop the site, following a selection process. The design team includes ZGF Architects and Pfau Long Architecture, and the general contractor is Hathaway Dinwiddie. Chancellor Hawgood presented floor plans for the building and described the hierarchy of spaces and functions that would occupy the lower level and levels one to five. UCSF was seeking to reduce the impact of this development on the surrounding neighborhood and would comply with City of San Francisco height limits. The building height would range from three to five stories and allow the design to respond to the varied scales of the architecture around it. The exterior materials, a combination of metal panels and glazing, would provide a rich texture and develop a patina over time. An exterior roof terrace would include plantings and hardscape surfaces and provide a relaxed environment for the assessment of child and teen mental health. Construction was scheduled to begin in late 2017 and be completed by early 2020.

Committee Chair Makarechian observed that almost 100 percent of the financing for the project would be covered by gift funds. Chancellor Hawgood responded that this was the intention of the campus. At present, gifts raised for the building amounted to $30 million in cash from the donor, who was also assigning the land. This would not completely cover the annual lease payments, but UCSF was actively seeking additional philanthropic
gifts. The UCSF Health system would also contribute for its share of the building occupancy, roughly 50 percent dedicated to clinical work.

In response to another question by Committee Chair Makarechian, Chancellor Hawgood confirmed that in spite of the magnitude of this building, the project would not have a major effect on UCSF finances. The campus had incorporated this project into its ten-year planning horizon.

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

3. APPROVAL OF BUDGET, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, JOAN AND SANFORD I. WEILL NEUROSCIENCES BUILDING, SAN FRANCISCO CAMPUS

A. The President of the University recommended that:

(1) The 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: Mission Bay Neurosciences Research Building (Block 23A) – preliminary plans – $21 million funded from campus funds.

To: San Francisco: Joan and Sanford I. Weill Neurosciences Building – preliminary plans, working drawings, construction, and equipment – $357.6 million, to be funded from external financing ($141.6 million), gifts ($175 million), and campus funds ($41 million).

(2) The scope of the Joan and Sanford I. Weill Neurosciences Building project shall consist of constructing a new research and outpatient clinical building with approximately 208,000 assignable square feet (asf) of space that would include: wet laboratory (50,000 asf), office/dry laboratory (65,000 asf), clinical/imaging/infusion space (53,000 asf), clinical research (11,000 asf), a vivarium (16,000 asf), and building support (13,000 asf).

(3) The President be authorized to obtain external financing not to exceed $141.6 million plus additional related financing costs for the project. The President shall require that:

a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
b. As long as the debt is outstanding, the general revenues of the San Francisco campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

c. The general credit of the Regents shall not be pledged.

B. The President recommended that, following review and consideration of the environmental consequences of the proposed Joan and Sanford I. Weill Neurosciences 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 Finance and Capital Strategies Committee recommend that the Regents:

(1) Find the project to be in conformance with CEQA as indicated in Addendum #4 to the UC San Francisco 2014 Long Range Development Plan Final Environmental Impact Report.

(2) Adopt the CEQA Findings including the Statement of Overriding Considerations for significant and unavoidable impacts.

(3) Approve the design of the Joan and Sanford I. Weill Neurosciences Building project, San Francisco campus.

C. The President recommended that she be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

[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.]

Executive Vice President and Chief Financial Officer Brostrom introduced the item, a project to construct a 274,000-gross-square-foot building to provide a primary home for the new UCSF Weill Institute for Neurosciences. Chancellor Hawgood explained that a generous gift from Joan and Sanford Weill had made this project possible. The UCSF Weill Institute for Neurosciences would bring together research programs in psychiatry, neurology, neurosurgery, and basic neuroscience, as well as desktop research, clinical, and clinical research space. Approximately 70 percent of the building would be dedicated to neuroscience research and teaching, and the remainder to clinical care. The complex building program required a sophisticated structural, mechanical, and electrical design. UCSF expected to complete the project in early 2020.

Based on UCSF’s ten-year projections for revenue, expenses, and capital project needs, the campus has the debt capacity to undertake this and the other projects being presented
that day. The campus’ net income as a percentage of operating revenues and its total debt service as a percentage of operating expenses would meet UC’s required thresholds. The campus’ expendable resources would cover the total debt to be incurred for this and the other projects. The Weill Neurosciences Building would generate net new revenue for UCSF that was expected to cover the costs of construction and operation. This would include new research overhead revenue, new clinical revenue from up to 23,000 annual outpatient visits, and new gift fees. Of the 45 principal investigators and scientists who would occupy the Weill Neurosciences Building, about 36 would be new recruits. The building would also house other faculty involved in desktop research and patient care, as well as research and administrative staff. Current UCSF faculty moving into the building would vacate space elsewhere that can be reassigned.

Chancellor Hawgood described the site location and its proximity to other Mission Bay facilities. The building would complete the Koret Quadrangle and its design was intended to be aesthetically pleasing, fiscally and environmentally responsible, and an enhancement to the campus core. Chancellor Hawgood presented architectural renderings and outlined the project design, with disposition of clinical services in the two-story base and four research and clinical floors above. The sixth floor would include an outdoor space. The building would be designed to reduce the need for patients to travel to multiple destinations in the building or to other sites on campus. The combination of clinical spaces and research laboratories presents some design challenges. To meet licensing and accreditation requirements, separate mechanical systems are required to serve the clinical and research areas. While the clinics must be open and welcoming to patients, the research laboratories and vivarium require strict access control, while still promoting interaction and collaboration among researchers and clinicians. The project would be delivered using a lean, integrated, “construction manager at risk” model.

In response to a question by Regent Blum, Chancellor Hawgood stated that the donors were enthusiastic about the project as now presented, the building’s program, efficiency, and appearance, and UCSF’s ability to finance the building.

Committee Chair Makarechian described the project as a beautiful building and remarked that upon completion, it might be the largest neuroscience research center in the world.

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

4. APPROVAL OF BUDGET, EXTERNAL FINANCING, AMENDMENT #4 TO THE UC SAN FRANCISCO 2014 LONG RANGE DEVELOPMENT PLAN, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, MINNESOTA STREET GRADUATE STUDENT AND TRAINEE HOUSING, SAN FRANCISCO CAMPUS

A. The President of the University recommended that:

(1) The 2016-17 Budget for Capital Improvements and the Capital
Improvement Program be amended as follows:

From: San Francisco: Minnesota Street Graduate Student and Trainee Housing – preliminary plans – $12.8 million to be funded from housing reserves ($7 million) and campus funds ($5.8 million).

To: San Francisco: Minnesota Street Graduate Student and Trainee Housing – preliminary plans, working drawings, construction, and equipment – $222.7 million to be funded from external financing ($205.3 million), housing reserves ($7 million), and parking reserves ($10.4 million).

(2) The scope of the Minnesota Street Graduate Student and Trainee Housing project shall provide approximately 377,000 gross-square-feet (gsf) of space in two structures. The buildings will have approximately 595 units to house approximately 710 graduate and professional students and trainees, along with retail, community spaces, and building support. The scope also includes garage parking with approximately 127 spaces.

(3) The President be authorized to obtain external financing not to exceed $205.3 million plus additional related financing costs. The President shall require that:

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

   b. As long as the debt is outstanding, general revenues from the San Francisco campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

   c. The general credit of the Regents shall not be pledged.

B. The President recommended that, following review and consideration of the environmental consequences of the proposed Minnesota Street Graduate Student and Trainee Housing project, 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 Finance and Capital Strategies Committee recommend that the Regents:

   (1) Certify the Environmental Impact Report.

   (2) Adopt the Mitigation Monitoring and Reporting Program.
(3) Adopt the CEQA Findings including the Statement of Overriding Considerations for significant and unavoidable impacts.

(4) Approve Amendment #4 to the 2014 Long Range Development Plan (LRDP) to include the project site in LRDP Chapter 9, Smaller Owned Sites.

(5) Approve the design of the Minnesota Street Graduate Student and Trainee Housing project, San Francisco campus.

C. The President recommended that she be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

[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.]

Executive Vice President and Chief Financial Officer Brostrom introduced the Minnesota Street Graduate Student and Trainee Housing project as a critical item for UCSF. He recalled that it had been discussed at the March 2017 meeting. Chancellor Hawgood stated that the campus was now returning with a proposal that would address concerns about space efficiency and overall costs raised by the Regents at that meeting. Since March, local subcontractors had been brought into the project team. Working closely with the contractor, UCSF had been able to refine budget allowances and design contingencies, reducing the total budget by approximately $8.6 million.

Chancellor Hawgood described the project site, located on two parcels in the Dogpatch neighborhood just south of the Mission Bay campus. UCSF had received approval from the Regents to purchase and finance the two parcels in September 2015. After evaluating options for new construction on this site, UCSF determined that the best use for the site would be housing. The total project budget would be $222.7 million. The project would include 595 housing units, and approximately 65 percent of these would be micro-units, with an average size of about 250 square feet. Micro-units have a higher proportion of kitchen and bath space per unit than conventional apartments. Since wet space is typically the most expensive space in a residential development, the cost per rentable square foot would be somewhat higher for this project than for a conventional apartment building, amounting to $860 per rentable square foot, excluding land, furniture, fixtures, and equipment. Consultation with the UCSF Board of Overseers’ real estate advisory committee indicated that this cost was in line with apartment development costs within the City of San Francisco, which can range from $750 to $800 per rentable square foot, excluding land costs. The project would be delivered using the “construction manager at risk” model. Project completion was scheduled for summer 2019.

Each floor would provide a combination of micro-units, studio apartments, and two-bedroom units. Since the size of individual units is intentionally small, the two buildings would be programmed with a variety of shared common areas such as exterior
courtyards. The project would also include 46,000 gross square feet of parking or approximately 127 parking spaces shared by the two buildings.

Chancellor Hawgood briefly presented a debt capacity analysis for the project. He drew attention to the fact that although the project would not meet the 1.1 debt service coverage ratio requirement until the 11th year of operations, UCSF’s housing services program overall meets the auxiliary debt service coverage ratio requirement of 1.25 in all years. The debt service coverage ratios were calculated with a conservative six percent financing rate, and the Office of the President had approved this exception to its debt capacity criteria. The campus intended to use revenues from the entire UCSF housing portfolio to support this project. UCSF was committed to providing housing for its students and trainees at substantially below-market rates. At the same time, housing rental rates were set at levels high enough to cover annual increases in operating expenses and to fund reserves for renewals, ongoing repairs, existing debt, and future development.

Chancellor Hawgood displayed architectural renderings of the project. Both buildings would have shared amenity and/or retail spaces at street level. Primary pedestrian entrances for both buildings would be located along the more attractive Minnesota Street, while garage and service access would occur on Indiana Street.

Committee Chair Makarechian referred to an analysis of alternatives included in the background materials to the item, with other options the campus had considered but rejected. One of these options was to master lease privately developed off-campus housing, with an estimated cost of $7 million per year for 500 units. He asked why the campus had not chosen this option. Senior Vice Chancellor Paul Jenny responded that this $7 million amount was the management fee, in addition to the actual costs of construction that a third-party developer would pay.

Committee Chair Makarechian asked about a second option rejected by UCSF, to purchase privately developed off-campus housing. One sample site was priced at $341 million for 500 units. He noted that these units would be much larger than the micro-units being planned in this project. Chancellor Hawgood explained that UCSF had decided to develop the project on its own in order to maximize its ability to control rents. UCSF would like to keep annual rent increases at or below four percent.

In response to another question by Committee Chair Makarechian, Chancellor Hawgood confirmed that in comparing its rental rates with the local San Francisco market rates, UCSF had compared units of similar sizes.

Regent-designate Lemus asked about the cost of building parking spaces for this project. Chancellor Hawgood responded that the cost was $63,000 per space; the total cost was $8,001,000. He noted that inclusion of parking was an important concern for a neighborhood group. UCSF worked with this community group on its concerns about pressures on street parking availability in the neighborhood. The 127 parking spaces were also an important part of the overall Mission Bay parking strategy; they were not intended primarily for students living in the building.
Regent-designate Lemus estimated that the construction cost of $63,000 per space would be about three times as much as the cost for above-grade parking at an alternative site. He asked if the campus had considered other options for meeting this need. Chancellor Hawgood responded that UCSF had discussed with the neighborhood group the fact that UCSF has other parking sites on the Mission Bay campus. UCSF’s long-range parking plan indicates a need for more parking spaces. In response to another question by Regent-designate Lemus, Chancellor Hawgood stated that UCSF’s parking plan had been updated within the past 12 months.

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

5. **APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, EAST CAMPUS APARTMENTS PHASE IV-A, IRVINE CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed East Campus Apartments Phase IV-A project, 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 Finance and Capital Strategies Committee recommend that the Regents:

A. Adopt the Initial Study/Mitigated Negative Declaration for the East Campus Student Apartments Phase IV project in accordance with CEQA.¹

B. Adopt the CEQA Findings for the East Campus Apartments Phase IV-A project.

C. Approve the design of the East Campus Apartments Phase IV-A, Irvine 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.]

UC Irvine Vice Chancellor Ronald Cortez explained that the proposed East Campus Apartments Phase IV-A project would provide approximately 1,441 student apartment beds to serve unmet housing demand for undergraduates. A future Phase IV-B, not part of the current proposal, would add 910 beds. The Phase IV-A project was an important element in moving toward the campus’ Long Range Development Plan (LRDP) goal of housing 50 percent of students on campus. The Irvine campus currently provided housing for about 44 percent of its students. This project would build on UC Irvine’s successful model of public-private partnerships in implementing and operating student housing in

¹ The East Campus Student Apartments Phase IV Initial Study/Mitigated Negative Declaration addresses potential impacts for both Phases IV-A and IV-B. Design approval is for Phase IV-A only, and adoption of the IS/MND does not constitute approval for Phase IV-B.
the East Campus sector. At the March 2017 meeting, the Regents had approved the business terms for this development, financing, and management of the project by the ground lessee, Collegiate Housing Foundation, which would contract with American Campus Communities to build and operate the project. This same team had successfully developed and operated the three previous phases of student apartments in the East Campus.

Vice Chancellor Wendell Brase remarked that the Phase IV-A project would continue implementation of a consistent master planning vision for the East Campus as described in the LRDP and the Physical Design Framework that has guided development of student living space with over 5,100 beds since 2014 in Phases I, II, and III. Mr. Brase adumbrated this vision of a 24-hour living-learning community in the East Campus with the Anteater Recreation Center serving as a central open space and social center for the community. Building in concert with this comprehensive vision ensures that projects are developed at appropriate density and that each project is part of a cohesive whole. Phases I to III have been well received and provide high-quality affordable housing for students.

Assistant Vice Chancellor Brian Pratt described the proposed site of the Phase IV-A project. The project would provide 1,441 beds in 410 apartment units, resulting in a density of 47 units per acre or 164 beds per acre, significantly higher than in the prior phases of the East Campus. The 530-space, five-story parking structure, together with parking in adjacent communities, would provide sufficient capacity. The building would be arranged around a series of connected outdoor courtyards. A bicycle parking center would shelter over 700 bicycles. The primarily five-story apartment building would be stepped, with four stories facing one side and two stories facing another. The site grading and landscaping would be designed to minimize the perceived scale of the project facing the neighboring community. Gradually sloping sidewalks would create a generous buffer zone between the building and the street. The project would include a mix of one-, two-, and four-bedroom apartment units including single- and double-occupancy rooms. Units would range in size from 550 gross square feet to approximately 1,400 gross square feet. In accordance with the California Environmental Quality Act, all environmental impacts would be reduced to less than significant levels through adoption of mitigation measures. The Phase IV-A project would comply with the UC Sustainable Practices Policy and campus sustainability goals, would target Leadership in Energy and Environmental Design (LEED) Gold certification, and would be constructed with building systems and energy supply strategies that provide a pathway to net zero operations.

Regent Sherman asked if the campus had developed pro forma financial statements for the project. Mr. Cortez responded in the affirmative. The project was divided into two parts, development and operations. In the operational phase, the project would generate sufficient returns or ground rent to pay all operating costs and debt, and possibly generate additional ground rent. Regent Sherman asked if this would provide an additional margin for the University. Mr. Cortez responded that this was possible; additional ground rent accrued over the past five years had amounted to $1 million to $2 million.
Regent Sherman referred to the building plans, remarking that the units would all be equipped with kitchens. He asked if there would be no dining facility within the project, or if there was a dining facility nearby. Mr. Pratt responded that there is a small café in the community center. Each unit would have a kitchen. Regent Sherman asked about the location of the nearest market or grocery store. Mr. Pratt responded that there is a market almost directly across Campus Drive.

Regent Sherman asked about the anticipated rent, underscoring the desirable, premium features of the facility. Mr. Cortez responded that most units would be in the two bedroom/two bath category. Rent would range slightly less than $790 per month, including furniture, internet access, and many amenities not provided to students living off campus.

Regent Sherman requested pro forma financial statements for projected rental income. Committee Chair Makarechian also requested information on the cash flow per apartment or unit. Executive Vice President and Chief Financial Officer Brostrom responded that this information would be provided.

Committee Chair Makarechian expressed concern that UC Irvine might be building excessively large units because of the greater amount of land it owns compared to other campuses. He suggested that the campus should build student housing with greater density and envision what its needs would be 15 to 20 years in the future. Mr. Brostrom recalled that the density of Phase I of the East Campus apartments was 50 beds per acre or 16 units per acre; the density of the current phase was about three times this amount. The density of Phase IV-B would increase to 228 beds per acre.

Committee Chair Makarechian questioned the rationale for construction of 530 surface parking spaces on expensive land.

Regent Elliott asked about the influence of the increase in nonresident student enrollment on UC student housing needs. Mr. Brostrom responded that although the percentage of nonresident students had been growing, they were still a small part of the total undergraduate population; even with no nonresident enrollment, the University would still have a shortage of housing for undergraduates. UC was moving as quickly as possible to build housing for undergraduate and graduate students, given that housing off campus, especially at a campus like UC Irvine, can be much more expensive for students.

Regent Kieffer asked how the percentage of students housed on campus had changed over time. Mr. Brostrom responded that in 1965-66 about 21 percent of UC students were housed on campus while in 2016 about 32 percent of students lived in University housing. Out of necessity, campuses had been converting lounges to bedrooms and double units to triple units. Campuses were not able to extend the housing guarantees they would like to offer incoming students due to the insufficient current housing stock.

Committee Chair Makarechian moved to approve the item, on condition that the cash flow information requested earlier be provided to the Committee.
Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board.

6. **APPROVAL OF PRELIMINARY PLANS FUNDING, STUDENT HOUSING FOR FIVE SITES, LOS ANGELES CAMPUS**

The President of the University recommended that the 2016-17 Budget for Capital Improvements be amended to include the following projects:

Los Angeles: Bradley South Residence Hall – preliminary plans – $2.3 million to be funded from housing reserves.

Los Angeles: Lot 15 Residence Hall – preliminary plans – $3 million to be funded from housing reserves.

Los Angeles: Drake Stadium Residence Hall – preliminary plans – $2.7 million to be funded from housing reserves.

Los Angeles: 10995 Le Conte Apartments – preliminary plans – $3.1 million to be funded from housing reserves.

Los Angeles: Southwest Campus Apartments – preliminary plans – $4.3 million to be funded from housing reserves.

[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.]

Executive Vice President and Chief Financial Officer Brostrom recalled that this item had been discussed at the March 2017 meeting. The current item was a request for approval of preliminary plans funding totaling $15.4 million, to explore the potential for developing housing on five UCLA sites.

Regent Sherman asked how UCLA would determine an appropriate balance of typical dormitory residence halls versus apartments. UCLA Vice Chancellor Steven Olsen responded that the campus was measuring the demand for different types of living arrangements. Lower-division students are better supported and more interested in traditional dormitory-style housing; three of the sites would be dedicated to this type of housing. Upper-division students are more interested in apartment-style living. Planning for this project would also include consideration of graduate student demand. Two of the sites would be more suited to apartment-style housing. UCLA was also seeking to reduce the number of triples.

Committee Chair Makarechian emphasized the high cost of this land and urged the campus to build as densely and with as many units as possible.
Regent Kieffer asked how many UCLA students lived at home in 1965 compared to the present. Mr. Olsen responded that in 1965 UCLA housed 3,000 students; its student population at that time numbered around 25,000, which meant that roughly ten percent of students were housed on campus while 90 percent commuted to campus. Currently UCLA housed 46 percent of its undergraduates and 28 percent of its graduate students.

Regent Kieffer reflected on the cultural shift that had taken place at universities over the past 50 years, with the idea of living on campus becoming the norm. Universities had taken on new responsibilities for education, especially for the freshman year. With a new student demographic and students who struggle with housing costs, other issues, such as food insecurity, were coming to the fore. Committee Chair Makarechian stressed the high cost of rent in many areas near UC campuses.

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

7. APPROVAL OF BUDGET, STANDBY FINANCING, INTERIM FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO CALIFORNIA ENVIRONMENTAL QUALITY ACT, WARNER GRADUATE ART STUDIO RENOVATION AND ADDITION, LOS ANGELES CAMPUS

The President of the University recommended that the Finance and Capital Strategies Committee recommend to the Regents that:

A. The 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

   From: Los Angeles: Warner Graduate Art Studio Renovation and Addition – preliminary plans – $2 million to be funded from gift funds.

   To: Los Angeles: Warner Graduate Art Studio Renovation and Addition – preliminary plans, working drawings, and construction – $30 million to be funded from gift funds.

B. The scope of the Warner Graduate Art Studio Renovation and Addition project shall renovate and expand a 30,000-gross-square-foot (gsf) building at 8535 Warner Drive in Culver City for use by the UCLA Department of Art. The completed project will include studios; provide shops, labs, gallery, work areas and commons space; replace building systems at the end of their useful life; and improve lighting and ventilation in the facility. Upon completion, the facility will comprise approximately 43,700 gsf.

C. The President be authorized to obtain standby financing not to exceed $19.5 million for the 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) Repayment of any debt shall be from gifts funds. As gifts are received, the campus will reimburse the standby financing in a timely fashion. If gift funds are insufficient and some or all of the debt remains outstanding, then the campus reserves shall be used 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 interim financing not to exceed $9 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 by 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.

E. Following review and consideration of the environmental consequences of the proposed Warner Graduate Art Studio Renovation and Addition project, as required by the California Environmental Quality Act (CEQA), the Regents:

(1) Find that the project is categorically exempt under Article 19, Section 15301, Class 1, Existing Facilities and Section 15332, Class 32, In-Fill Projects.

(2) Approve the design of the Warner Graduate Art Studio Renovation and Addition project, Los Angeles campus.

F. The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above.

[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.]

Executive Vice President and Chief Financial Officer Brostrom briefly introduced the item. UCLA Vice Chancellor Steven Olsen drew attention to the fact that the Warner
Graduate Art Studio Renovation and Addition was a gift-funded project. The campus had raised $20 million toward the $30 million project cost, and fundraising efforts were under way to cover the remaining cost. The master of fine arts program in the UCLA Department of Art is one of the top-rated programs of its kind in the nation. The Warner Graduate Art Studio was in a desirable location in Culver City, and this project would provide needed improvements. Regent Kieffer commended the Department of Art for its high rankings.

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

8. UPDATE ON STUDENT HOUSING, RIVERSIDE 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.]

Executive Vice President and Chief Financial Officer Brostrom began the discussion by observing that UC Riverside was moving forward with its campus housing strategies. The campus was pursuing efforts to redevelop a 50-acre site referred to as the North District, formerly military housing which was being used for low-density student family housing. The site currently had 266 units. The campus intended to use a public-private partnership delivery model to develop space for 4,000 to 6,000 beds over multiple phases.

Chancellor Wilcox recalled that living on campus leads to well-documented positive educational outcomes for students, including improved retention, academic achievement, and timely graduation. UCR currently had space for only 30 percent of its students to live on campus. In 2005, UCR had set a Long Range Plan Development (LRDP) goal of housing half its students on campus. The campus had fallen short of this goal primarily due to rapid enrollment growth. Since 1990, UCR student enrollment had almost tripled. The campus had been fortunate in being able to rely on a historically favorable real estate market which has allowed 62 percent of students to live on campus or within three miles of campus. The student population was now growing and the housing market was changing. Over the last four years, rental rates for privately owned apartments in Riverside had increased by 23 percent. Much of the land adjacent to the campus has been saturated, with limited opportunities for additional privately operated apartments to be established. In order to achieve its LRDP target of housing 50 percent of its students in fall 2016, UCR would have needed approximately 4,500 more beds. In response to this shortfall, the campus had converted all available double-occupancy rooms into triples. Demand for graduate student housing has also grown. Chancellor Wilcox reported that in the past year UCR had been unable to accommodate about 1,900 students who either submitted contracts or paid deposits for on-campus housing, as well as 600 students who did not apply because of the known lack of availability.

Demand for affordable on-campus housing has become significantly more acute in recent years. UC Riverside’s current student housing facilities included residence halls, residential apartments with and without meal plans, family housing, and local
partnerships with private developers. The campus had identified a site where inefficient former military housing could be replaced by modern, high-density construction to meet present demands and address future growth. UCR envisioned this flat northern parcel of the campus, the North District, as the focal point for expanding and reimagining its campus housing portfolio. The North District would provide a rare opportunity to increase student housing substantially within the campus core. Originally built in 1940 for military families, the existing facilities of Canyon Crest Family Student Housing were purchased by the University in 1955. Chancellor Wilcox stated that this complex of 266 units had outlived its reasonable use and was generating more cost than revenue.

UCR envisioned the new North District offering a mixed-use, living-learning environment with affordable residence halls and apartments, dining and retail space, class and meeting rooms, and recreational facilities. Chancellor Wilcox anticipated that the site could add 4,000 to 6,000 beds to UCR’s housing stock. The campus would implement a phased approach in developing this site based on market demand and student surveys. Ideally, UCR would develop concrete and steel construction with buildings six to eight stories high to accommodate student demand for apartments and to preserve land space. In order to prioritize affordability, UCR would consider potentially less expensive wood frame construction and planned to incorporate micro-apartments for graduate students.

UC Riverside was working with the Office of the President to develop the site through a public-private partnership. A Request for Proposal – Stage 1 was released to eight housing developers selected through the systemwide solicitation process. UCR had received seven proposals and planned to review the proposals and short-list the developers that would receive the Request for Proposal – Stage 2. The campus planned to select a developer by September. The planned development of the North District would begin with a first phase providing 2,000 beds in 2020. The next two phases would provide another 2,000 beds each in 2022 and 2024. Throughout these phases, UCR would work with selected developers to prioritize affordability and assess market demand to avoid overbuilding or underbuilding. UCR anticipated continued enrollment growth through 2025 and beyond.

Chancellor Wilcox presented a table with a ten-year financial forecast for UCR housing and dining services. The projected debt service coverage ratio would be at or above 1.25 for several years. Importantly, the table did not include projected revenue or expense from the North District development. Those costs would appear on the partner’s ledger through the public-private partnership arrangement. Nevertheless, UCR’s major challenge remained its debt capacity. Currently UCR had little flexibility for additional debt. The public-private partnership should allow the campus to preserve its overall debt capacity for other projects.

Committee Chair Makarechian noted that the table showed a decrease in operating revenues projected for 2018 and asked about the reason for this. Chancellor Wilcox responded that this reflected the phasing out of the existing facilities in the North District.
Committee Chair Makarechian asked about the planned density per acre. Special Advisor Barbara Lloyd responded that the density would depend on the type of construction the campus chose. A four-story building with 4,000 beds would have a density of 200 beds per acre. A taller building might have a density of 300 beds per acre.

Committee Chair Makarechian asked about total acreage. Ms. Lloyd responded that the entire site encompassed 50 acres. UCR would preserve space for recreation, parking, and other activities. Student housing might occupy 20 acres. A six-story building might result in a density of 300 beds per acre.

Committee Chair Makarechian asked if the rooms would be the size of hotel rooms. Chancellor Wilcox responded that the size would be in that range.

Committee Chair Makarechian asked about the possible use of wood frame construction for this project. Ms. Lloyd responded that the campus was considering the possibility of wood frame construction on top of a podium for a height of five stories or more. UCR was still working with the developers on alternatives.

Committee Chair Makarechian cautioned that the developer should not determine the direction of a project. Concrete and steel construction was preferable for a project of this density. Wood frame construction presented a greater fire hazard and would ultimately have a shorter useful life. He asked that the campus provide detailed cash flow information for the project.

Regent Sherman asked about the housing stock and market rents near the campus, observing that UC campuses strive to offer housing at lower rates than local markets. The campus could determine a threshold amount for rent per bed. Calculating from this threshold amount, the campus could determine how much it could afford to pay for construction and what degree of density would lower the per-foot cost. Chancellor Wilcox described the housing available in areas adjacent to the project site, including private apartment complexes purchased by the University and apartments owned by another party with whom UCR works closely. One area adjacent to the site had single-family dwellings, but many of these had been purchased by absentee landlords and they were also occupied by students. Private rents in the area amounted to about $12,000 per year for a 12-month contract, while the rate for equivalent UCR apartments was about $10,900.

Regent Sherman asked about UCR student housing rates on a per square foot basis. Committee Chair Makarechian asked that the campus provide these specific figures. Chancellor Wilcox observed that UCR had been fortunate in having less expensive land than other campuses, but this would change in the future. He expressed his eagerness to proceed with this project.

Committee Chair Makarechian asked about financing for the project. Associate Vice President Sandra Kim responded that UCR would present progress updates and a request for approval of business terms at a future meeting. UCR was still early in the process,
having just circulated its Request for Proposal – Stage 1 to eight developers, with seven responses. There would be another programmatic Request for Proposal – Stage 2 released to the short-listed developer teams.

In response to another question by Committee Chair Makarechian, Ms. Kim explained that for this project, the University was considering separating the development agreement from financing. It was likely that the campus would use a tax-exempt financing vehicle to fund the housing development.

Regent Schroeder recounted that she and Regent Brody had recently visited UCR. The campus’ commitment to building community through housing plans and student services was inspiring.

9. UPDATE ON THE PRESIDENT’S STUDENT HOUSING INITIATIVE

[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.]

Executive Vice President and Chief Financial Officer Brostrom began the discussion of the Student Housing Initiative by remarking that UC had made progress toward its goal of adding 14,000 student beds to UC’s inventory by fall 2020. In the coming fall there would be 3,000 new beds available at three campuses. Mr. Brostrom presented a chart showing that over the past 50 years, there had been a steady increase in the development of on-campus housing. In 1965-66, approximately 21 percent of UC students were housed on campus, while in 2015-16, 32 percent of students were housed on campus. In light of the fact that UC had added about 18,000 beds over the last decade, the goal of adding 14,000 beds over the next four years was a very ambitious plan.

Associate Vice President Sandra Kim recalled that some campuses deliver student housing projects on their own, generally financed with UC’s limited project revenue bond credit, while other campuses use public-private partnerships. To facilitate public-private partnership development, UC issued a systemwide Request for Information to select a group of housing developers. The Office of the President worked with many campuses in this selection process. The strategic goals of the systemwide public-private partnership approach were to eliminate the redundancy of a campus-by-campus solicitation process and thereby expedite delivery of housing, and to heighten the level of competition to achieve higher value for the University and maximize affordability for students. Santa Cruz and Riverside would be the first campuses to go through the systemwide solicitation process, with others in the queue. The Request for Information was developed in fall 2016 and released to over 3,000 developers in November. UC received responses in December. The University selected eight student housing developers to compete for upcoming housing projects. The firms were selected based on their familiarity with UC and development in California, experience with various financial structures, and experience across multiple product types. From the point of view of cost of capital, tax-exempt bond financing provides the lowest cost of capital, but for campuses considering other factors in their development, UC might consider other options such as equity
financing, if this ultimately provided affordability for students. Ms. Kim presented a chart showing the structure of third-party tax-exempt student housing financing. Mr. Brostrom noted that this structure was different from many other public-private partnerships. The developer was not providing any equity or capital; the University was financing these projects through third-party bond holders. This model keeps the cost of capital low. He recalled that the UC Merced 2020 Project capital was about 50 percent the developer’s and 50 percent UC’s. The public-private partnership approach being discussed for the Student Housing Initiative involved 100 percent the University’s own tax-exempt financing.

Committee Chair Makarechian emphasized that these future projects must be well designed to minimize the cost of later repairs. The Regents must be attentive to cash flow and cost details. He also stressed the importance of affordability for students, stating that housing costs for students should be at 50 percent to 60 percent of market rates.

Chancellor Blumenthal then introduced the topic of UC Santa Cruz’s housing program and its integrated plan, which includes major renovations of existing facilities, mostly in the residential colleges, and new construction. UCSC had immediate and long-term housing needs in order to accommodate the enrollment levels in its Long Range Development Plan (LRDP). Immediate needs were especially urgent due to enrollment pressures on the campus as a result of President Napolitano’s agreement with the State to increase California resident undergraduate enrollment. UCSC was committed to the Student Housing Initiative public-private partnership approach. Chancellor Blumenthal noted that when the Santa Cruz campus was built, the redwood trees on campus were 50 years old, the area having been clear cut to rebuild San Francisco after the 1906 earthquake. At the inception of UCSC, a decision was made not to build structures taller than the trees, but the campus was now having discussions about modifying its building height limits.

UC Santa Cruz Vice Chancellor Sarah Latham reported that UCSC housed a greater proportion of its students than did any other campus in the UC system, nearly half of all students and about 53 percent of undergraduates. In relation to the need for new student housing at UCSC she outlined three areas where action was required. The first area was the need for density reduction. UCSC had accommodated enrollment growth over recent years by increasing density within existing buildings. One positive result of converting doubles to triples was a lower price for students, but conversion of lounges had had a negative impact on the student experience. As of fall 2016, UCSC had converted 141 lounges to bedroom spaces; only 17 lounges were left. Lounges play a critical role in providing a space for study and for student engagement and community building. The campus wished to return a portion of these lounges to their original purpose. The second area was enrollment growth. UCSC needed to add beds to accommodate this growth. In addition to promoting student success by having students live on campus, UCSC had a legal obligation deriving from its 2008 comprehensive settlement agreement on the terms of the 2005 LRDP. UCSC must provide a certain number of beds based on enrollment growth. The third area to be addressed was the student waitlist. Ms. Latham noted that some students do not apply for on-campus housing because of the shortage of space.
UCSC decided to pursue the public-private partnership model because the campus feels this model will ensure affordability, leverage the experience of the housing developers who can find creative solutions, reduce the impact on campus debt, allow for a focus on the performance outcomes that the campus expects, and ensure that UCSC has the resources to maintain and redevelop its existing housing stock.

Ms. Latham presented a slide showing the location of a new housing project envisioned by UC Santa Cruz on the western side of the campus, Student Housing West. The site boundary encompassed about 50 acres. The precise number of acres to be developed was still to be determined; the campus would first receive developer proposals and undertake the California Environmental Quality Act and environmental review process. The campus would develop about 3,000 student beds in apartment-style dwellings for upper-division students, graduate students, and students with children in a phased project. Phase 1 would have to deliver a minimum of 900 beds by fall 2020 and the rest would have to be completed by fall 2022. The Santa Cruz campus is challenging to build on due to its topography and geology, with sloping sites and a karst landscape. The project site was largely undeveloped and would require a great deal of infrastructure work. UCSC had narrowed its choice of developers to three teams who would submit proposals for the project. The submission and selection process was intended to maximize competition and enhance creativity. The campus would engage in collaborative sessions with the developer teams to review concepts and reinforce affordability goals, and UCSC expected submittals to include concept design, renderings, and development and financial pro forma statements. The committee selecting the developer would include students, faculty, and staff. Ms. Latham anticipated that the Student Housing West developer would be selected in September. She outlined future items to be presented to the Regents in connection with the Student Housing West project and for another project, renovation and new construction at Kresge College.

10. CONSENT AGENDA

A. **Approval of Short-Term Secured Working Capital Loan Agreement with Armand Hammer Museum of Art and Cultural Center, Los Angeles Campus**

The President of the University recommended that UCLA be authorized to establish a lending relationship with the Armand Hammer Museum of Art and Cultural Center, Inc. (AHMACC) in the form of a fully secured revolving credit agreement, pursuant to the following terms:

1. The revolving loan will be funded with campus funds and have a final expiration date not more than five years from the date a loan agreement is executed between UCLA and AHMACC.

2. Under the revolving loan agreement, funds will be available to access in multiple draws, provided the aggregate principal amount outstanding at any time does not exceed $15 million.
(3) During the term of the revolving loan, interest on amounts outstanding will be paid in arrears on a quarterly basis.

(4) Principal amounts borrowed under the revolving loan can be repaid at any time, and any outstanding amounts on the revolving loan on the expiration date of the revolving loan will be immediately due and payable.

(5) The revolving loan will be secured by collateral of 150 percent of the maximum amount available under the revolving loan, or $22.5 million of AHMACC’s investment balance held by the UCLA Foundation.

B. Authority to Indemnify Los Gatos Homeowners for a License Agreement Related to Operation and Maintenance by the Berkeley Seismological Laboratory of an Unmanned Geophysical Seismic Observatory on Their Private Property, Berkeley Campus

The President of the University recommended that the President, or designee, be authorized to approve and execute a License Agreement between the University and the homeowners of private property that would allow the UC Berkeley Seismological Laboratory to operate and maintain a geophysical seismic observatory on private property located in Los Gatos, California for a term of five years from June 1, 2017 to May 31, 2022. The License Agreement includes provisions pursuant to which the University agrees to:

(1) Indemnify, defend and hold harmless the homeowners and its officers, partners, agents, and employees, from and against any and all claims, actions, suits, procedures, costs, expenses, damages and liabilities, including attorneys’ fees arising out of or in any way connected with the License Agreement including, without limitation, claims for loss or damage to any property or for death or injury to any person or persons, and to reimburse the homeowners fully for any such expenses incurred.

(2) Covenant not to sue the homeowners for liability from any and all claims, including negligence of the homeowners, resulting from personal injury, accidents or illnesses (including death), and property loss arising out of or in any way connected with the License Agreement.

C. Adoption of Expenditure Rate for the General Endowment Pool

The President of the University recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2017-18 fiscal year remain at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.
D. **Adoption of Endowment Administration Cost Recovery Rate**

The President of the University recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)\(^2\) and apply to distributions from the General Endowment Pool (GEP) to be made after July 1, 2017, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

[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.]

Upon motion duly made and seconded, the Committee approved the President’s recommendations and voted to present them to the Board.

11. **UPDATE ON GOVERNOR’S MAY REVISION TO THE 2017-18 BUDGET**

[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.]

This item was not discussed.

The meeting adjourned at 1:00 p.m.

Attest:

Secretary and Chief of Staff

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\(^2\) One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 55 basis points are the equivalent of $55 on endowment assets with a 60-month average market value of $10,000.